TRADE ASSOCIATION MEETINGS

HEARINGS

BEFORE THE

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HOUSE OF REPRESENTATIVES

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TRADE ASSOCIATION MEETINGS

MONDAY, FEBRUARY 23, 1981

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to notice, at 8:30 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. I want to thank everyone very much for being here. I was here on time for the meeting, but I thought I would give people time to get in, get settled and start the hearing then. I am very appreciative that you have come. For about 10 years I have found a method of operating which appears to yield rather salutary results, and that is from time to time, perhaps on a quarterly basis, to bring people in, most frequently representatives of trade associations, or just businessmen who are interested in Government and its problems. We simply have a wide-open dialog, relatively unstructured. This is the opportunity for us to hear from you. Out of those meetings in the past, what we have gotten is input to fashion legislation in order to prevent bad regulations from going through.

We have also attempted to monitor existing programs based upon your input or the input of the other groups that have been meeting to determine where we need to scrutinize an agency more carefully. I hope that this will be an effective mechanism for us to follow that same practice and to begin to present a more direct approach to both the committee and to the various agencies of Government. I am very delighted that so many of my colleagues have come out this morning for the meeting. Mondays are bad mornings for Members of Congress—they generally go home to their districts on Saturdays and Sundays—because there is generally not a legislative program on Monday. Most Members don't come back quite this early, but I am delighted you did come back.

Before we get into the program itself, if any of the Members wish to make some opening statement, I would be delighted to yield to them.

Mr. STATON. Mr. Chairman?

Mr. MITCHELL. Mr. Staton.

Mr. STATON. On behalf of the minority, it is good for the Members of Congress to have the business community come here. It is a special effort on your part to come here, and I am very happy to have you here and hear what you have to say.

Mr. MITCHELL. What I am suggesting is—and this is just for guidance—that you sort of go through the packet of material you have before you. One piece is all of the pending legislation from the Small Business Committee. The second is, the committee is finally, at long last, organized, and you have on your second sheet the structure of the committee, the Small Business Committee broken down by subcommittees and membership. You also have attached a breakdown of the jurisdictions of the various subcommittees of the House Small Business Committee. What I will propose, and just for guidance, is that if you have ideas with reference to new pieces of legislation that this committee ought to be considering, we will look at those ideas. Second, we would like to hear from you regarding the major problems that you are encountering when you attempt to do business with the Federal agencies. I know many small businessmen have just stopped doing business with the Government. They don't even try to do business with the Federal agencies because of many problems, one of the problems being the long delayed pay for the job done.

Apart from the broad problem of regulations, I would like to try to categorize the major problems you have confronted when you have attempted to deal with the various Federal agencies, or, to put it another way, I would like to hear your ideas on how we can make it easier for small business to participate with the Federal agencies in various procurement programs.

Finally, I will just indicate to you that our staff is in the process of making an assessment of the proposed tax changes that have come from the Reagan administration, with the specific idea of seeing how those tax proposals might impact on small business. We would also like to hear from you this morning if you have had an opportunity to study the proposed tax changes—we would like to hear from you with reference to what ideas you have on other changes that may be made in the tax structure, or whether the existing proposals will hurt or will help small business.

With that very broad statement, I will open it up for you successful businessmen and women—that means you are not shy—so it is wide open. There is a microphone here in the front. The only thing that I would ask is that you identify yourselves so that our reporter can have your name before you make a statement. If you will just identify yourselves, it will help us tremendously in keeping a record. What we will do is once this record is completed and the committee members start studying your recommendations, we will see how many of those we can begin to try to implement, which ones are feasible to implement, and which ones are not.

With that, let us start out with any ideas at all on proposed new legislation.

TESTIMONY OF JERRY GULAN, VICE PRESIDENT, GOVERNMENT AFFAIRS, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. GULAN. Mr. Chairman, I am Jerry Gulan. Mr. Chairman, you have a great many witnesses waiting this morning to give you their ideas, and I notice a good number of them are members of the legislative council you addressed 2 weeks ago, so I will not take too much of your time. We have already submitted to the council

our legislative priorities. I will tell you, in fact, I do not think you have one of these, but you will see that most of the items on the list will correspond with most of the priority aims of the other broad-based business associations, I believe, and the commodity or trade associations basically share in those, and they will have their own particular problems they will want to share with you.

But one area we have not gotten into a lot of detail on in this submission I have given to you this morning concerns the Federal Trade Commission and the Bureau of Competition. I have written many of your members about it already, and we have sent communications over to the Office of Management and Budget.

The position that we are taking here on behalf of the Small Business Legislative Council is that while we agree with the administration that budget cuts and tax cuts may well be necessary—and that does not give us any problem; we are all going to have to hurt and probably hurt a lot in order to get back on the economic track here—we hope they will allow us to open a dialog to offer alternatives whereby we can say that 20 or 24 percent in budget cuts can be saved or made at the Federal Trade Commission without doing away with the Bureau of Competition and totally removing FTC antitrust enforcement authority.

We firmly believe that the dual role of antitrust authority is necessary in this country, and it is much the same with the Small Business Administration. We have long been SBA's most severe critic, but we have planted our feet firmly against any attempts to transfer it to the Department of Commerce, or to do away with it. Our point is that there is a problem that if redirected and oriented that the agency, or in this case the Competition Bureau, will be forced to carry out the legislative mandate, in this case it being part of the Robinson-Patman Act or generally second line competition in the distribution field, which is basically small business. With that I will yield.

Mr. MITCHELL. Thank you very much. At any time the members may raise questions or make comments, please do.

Mr. ROEMER. Mr. Chairman, may I ask a question?

Mr. MITCHELL. Mr. Roemer?

Mr. ROEMER. In your packet do you have anything about international trade as regards small business?

Mr. GULAN. Mr. Roemer, no, we don't. What I have submitted in the position papers is what has been approved by the legislative council over the last 2½ years. There is nothing on international trade, although we do favor export assistance for small business wherever possible.

Mr. ROEMER. I was thinking particularly of the Japanese with their trading companies. The six largest in the world are all Japanese. They accrue to the benefit of small business in Japan, particularly giving them an outlet worldwide. I wondered if your organization had looked at that possibility in this country.

Mr. GULAN. We have not. We would be happy to take a crack at it, sir.

Mr. MITCHELL. Thank you. Like my colleague, I am enormously interested in export-import trade. I think that is a growing market and, unfortunately, most small businesses have simply not been able to participate.

Now, then, are there any comments from members, or questions? Thank you very much.

Yes, sir, come up and identify yourself, please.

TESTIMONY OF BRUCE HAHN, NATIONAL TOOLING MACHINE ASSOCIATION

Mr. HAHN. I am Bruce Hahn with the National Tooling Machine Association. I would echo what Jerry said on the subject of exports. One area that would be tangentially related to exports, to further the ability of exporting, we represent and that is a high technology industry. There are a number of them that have the same problem we have, and that is a shortage of skilled labor. Our people cannot even satisfy the domestic market, and if we have something like 50,000 jobs—I think there are 60,000 available jobs now—we cannot fill them. If we could fill them, we would be glad to consider getting into exports, but right now we cannot even support our domestic market. That is a bit of a problem, because the nature of the industry is that the base industry that is required for all manufacturing sets up the assembly line. It is critical to defense.

Our defense buying, if it increases as the budget indicates it will, is going to be in bad shape. Our defense efforts are going to be in bad shape, particularly because we have people in the defense sector who have worked on a year or a year and a half's backlog right now. The problem is it is difficult for small business to train.

We appeared last week on a panel before the Senate Small Business Committee. We had representatives from the construction industry, the electronics industry, and manufacturing. They all have the same problem to differing degrees. One thing we might consider is the present targeted jobs tax credits, and the WIN tax credits which will expire on the 31st of December this year. The Treasury will have to provide by the 30th of June recommendations as to whether they be continued or modified. I think those should be looked at.

Under the present law, tax cuts are not being used by small business. They are not well enough off. They are not particularly substantive. They are used a lot by law firms and accounting firms. But we have to target it more toward industries that have jobs available right now, simplified so it could be used and make a substantial amount of money. I think you could solve a lot of the unemployment problems. I know the issues in your districts, and you will be getting letters from some of our members out there that this exists in this country, and it is a shame when we are trying to increase exports, help the economy, build an industrial base, help our defense efforts, while there are industries with jobs available that pay about $30,000 a year for a guy who completes 4 years of training with only a high school degree.

The second point I would make is you mentioned that you folks are looking at the administration's tax proposal. If you would, please take a look at it and make sure that whatever depreciation reforms are offered, they are simple enough or have some mechanism in them so they can be utilized by small business. I think just about any small business endorses reduced depreciation, but, for

example, the phrase used in the bill is based on the asset depreciation rate.

Practically, now like a small business is using it, the asset depreciation rate is too complicated. One percent, I think, by IRS figures use it, and they are going to complicate it even further. You might consider caps or raising the level of caps to phase in the small business. Otherwise, they will not be able to use them.

The final suggestion is that you keep an eye on the White House council recommendations. I think they were a fair reflection of the recommendations of the business community.

Mr. MITCHELL. Thank you very much. I, too, am concerned about this job problem. You cannot train within your association?

Mr. HAHN. It is economically difficult for, say, a 15-man shop. They just don't have the space within the company to provide the training facilities, the training specialists, and so forth. They have to take a productive worker. Here you have got a company that has got a backlog of maybe 6 months or 1 year or 1½ years, and they have to take the most productive machinist off to teach the new guy. They are getting further in the hole supplying his needs, and they are losing productivity tremendously, and if there was an offset to that, you would see more on-the-job training.

One thing, our training, too, is vocational education. The Vocational Education Act is up for reauthorization, and there is a lot of training done under that. That should also be extended. If we are going to take measures to stimulate the economy, we are going to need the workers.

Mr. MITCHELL. Some businesses have entered into quasi-partnerships with the public schools in education, and so forth. Is that a possibility?

Mr. HAHN. I think it is in some areas where there is a large concentration of shops. For example, in our industry in major cities like Cleveland and Chicago where we have large concentrations of hundreds and hundreds of shops, I would think that would be a good possibility. In Baltimore we have—and I am guessing but I would say about 50 shops, so we represent about a third of the total companies. There might be 150 in Baltimore, but when you get down into some of the smaller towns where we have 5 or 10 or 15 companies, you might not be able to do that. But in many cases yes, you would.

Mr. MITCHELL. Let us not follow the regular rule. If you have a comment, just jump in.

Mr. IRELAND. Mr. Chairman?

Mr. MITCHELL. Mr. Ireland.

Mr. IRELAND. I think what we are all concerned about across the country is we have been throwing billions of dollars in the form of CETA vocational education and everything else, and here we find we have really a vital area of 60,000 prime jobs going begging, and we cannot get into the export business with these small businesses because of that. What is wrong with vocational education that they can't do it? What is wrong with these programs? We have literally thrown billions of dollars at it. Why are there no results?

Mr. HAHN. I guess there are different reasons for different programs. I am really not an expert on any of the programs.

Mr. IRELAND. Just in your area.

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Mr. HAHN. In our area I can only speak somewhat to training. We have a CETA-funded training program. It is the national program under title III and in the past it has been very successful, but that is a very small part of the total CETA effort. It is a $20 million budget item.

Mr. IRELAND. If it is successful, why do you have 60,000 unfilled jobs?

Mr. HAHN. Well, ours is $2 million out of the $20 million, and we can train 2,000 people a year at about $1,000 apiece. Excuse me, it is 1,000 people a year at $2,000 apiece. There are jobs waiting for every single one of them. The trouble is the attrition in the industry, particularly with people retiring. We have a tremendous concentration of older machinists, people who came over from Eastern Europe, or they are in their mid- to late-fifties, and they are going to be retiring. Two thousand a year isn't coming anywhere near replacing them, and we don't have any guarantee that program will be continued. That is simply not enough.

Mr. IRELAND. What confuses me is if you divide the number of people provided for by CETA, you come out with $25,000 apiece. You don't come out with $2,000 apiece. I just wonder why we can't get this money into the right place.

Mr. HAHN. I know in a less familiar area other programs that are done are joint industry cooperative programs. Our industry runs it, controls the hiring of the people, and gets them at particular locations. Very often they hire journeymen machinists to teach these people at night, and we place just about everyone that we can train. We have had some problems in recent years in that the philosophy of the Labor Department has changed more toward social uplift as a goal in and of itself, as opposed to matching people to real jobs—not that the social uplift is not a good goal; it is a fine goal; but it has some counterproductive results.

For example, we have gotten to the point where we are not allowed to test or use the results of testing. There are not a lot of educational requirements for someone to be a machinist, but they do need certain manual dexterity, and they need a certain amount of math aptitude, and within a fairly wide range of abilities you can train a heck of a lot of people to be machinists, but you can't train all of them.

If someone is economically disadvantaged, they are very often educationally disadvantaged. We would like to take everybody, obviously, who has got the basic skills to become a machinist and put them through the program. We do not care whatsoever about race, sex, national background, or anything else, but we have been forced to take some people that we know now because of experience and from what tests show, that these people are not going to make it. They are either too far behind in their educational background, or they don't have the potential to do it. It is going to hurt our own program.

Take a defense contractor, and we have a lot of suppliers on the cruise missile. You are working with some very expensive metals, and with some very complex diagrams, and when a fellow in there scraps a $500 piece of metal two or three or four times in a row, we start to feel the effects of that hurting our own program that we have now.

Mr. IRELAND. That is good input, but would you take a moment on the vocational education. Why isn't that in these localities? Is that strictly a problem locally of not pinpointing what you need?

Mr. HAHN. OK. Our folks mostly go short. They go without the people they need obviously. Most of the shops are working 50 hours a week, and I think they just get the people. It is not the equipment, although that is some problem, but it is the people. In some areas we use vocational training programs. There is a representative here from the American Vocational Association who appeared with us, or another representative from AVA who appeared with us last week, and I think she could probably address that better than I could.

Mr. IRELAND. Thank you.

Mr. ROEMER. Mr. Chairman.

Mr. MITCHELL. Mr. Roemer.

Mr. ROEMER. Let me pursue this—and I appreciate the input, Andy—again about the 60,000 jobs, and I know that is a guess, an estimate. Is the answer in this room or rooms like this, or is the answer in your industry? Or does it just take time? Is there a lag between the perceived need and the job opportunity? Do you need increased programs directed at you, or is it something you are going to have to work out?

Mr. HAHN. Let me tell you to address the need we did a survey last year. We projected the need right now according to the results is 60,000. By 1985 they estimated only 250,000. So, yes, in answer to your first question, there is an immediate need. The jobs are out there right now. There is a variety of reasons, and this is just a subjective opinion, as to why more people are not coming into the industry. It is partly, I think, social conditions. People are sort of tuned to the idea that they want their kids to grow up and go to college, and the trades are not often first in priority. I think it is perhaps a little bit of our own problem with public relations, but we do a lot of public relations.

We have movies that we send high schools all over the country talking about the trades, and they are very well done, professional types of presentations with actors, and they talk about how you can make good money, and so on, and so forth. But we are still not getting the supply, and that is part of the problem.

Then the other part is even when you get the supply, they are not doing the training. They don't have the stimulus. The kind of responses I hear from our members is, on the one hand, "Gee, we can't get them." On the other hand, they say, "If we could get them, the problem is we are so backlogged, it costs us more to train them in-house than I can really afford. I can't afford right now to take this skilled journeyman off his equipment." There is something like 12,000 companies. It is a very competitive industry, let me say, and they don't work on big profit margins.

Mr. ROEMER. Let me just pin you down, if I could; maybe I can't. If you were sitting up here with your experience and your knowledge, what would you recommend?

Mr. HAHN. What I would recommend is the most economical and efficient means to encourage training in areas where there is a skill shortage. I would use a tax credit approach. You don't have any administration overhead with that. You can simply allow a

certain number of dollars for credit as they do under the present WIN program and the TJTC program, which will be expiring at the end of this year.

So, No. 1, the administrative overhead would be eliminated, and you could use some mechanism such as the Department of Labor or whatever uses to determine which industries actually have a shortage, and let that be the stimulus, and that in turn, I think, combined with vocational education, may be a closer interrelationship with the educational and the employing community and would solve your problem.

Mr. ROEMER. I have one more suggestion, Mr. Chairman, if you will allow me. You could move some industries to Louisiana. We would like to have a lot of your folks there. That is just an idea.

Mr. MITCHELL. We will move away from a temporary, parochial viewpoint.

Mr. DAUB. Mr. Chairman?

Mr. MITCHELL. Mr. Daub.

Mr. DAUB. That was really going to be the suggestion that I would make, that every one of us has a real place in our own districts for them.

Mr. Hahn, I am fascinated by finding testimony this early in the day about possibly 50,000 or 60,000 jobs that exist now, or between now and 1985, in the survey you did. I hope you will make us aware, if you will, by some further documentation of the demographics and sociometric patterns that have led up to this gap of shortfall in terms of unskilled, trainable people in your related industries and where those people are. I would like to know that, and I think a lot of us could then further discuss what could be done to supply the proper incentives, if those should be supplied, by Government. I would like to have some further information in written form as to where these people are and why this shortfall exists in your industry.

Mr. HAHN. OK. I will be glad to provide it.

Mr. DAUB. Thank you.

Mr. BEREUTER. Mr. Chairman?

Mr. MITCHELL. Mr. Bereuter.

Mr. BEREUTER. I would just like to make a suggestion. Since we are on this track, would it be possible to have a person who is here from the Vocational Association testify now?

Mr. MITCHELL. I think it is an excellent idea.

Mr. HAHN. Here she comes right now.

Mr. MITCHELL. Just before she does, I have made a note that we want to get a copy of your survey and all other supporting documents because it seems to me that this is a good case where the Small Business Committee, the Department of Labor, and the appropriate committees in the House could simply say, "Here is a very narrow problem. Jobs are there for 60,000 people. They are not being filled." If we could get a combined effort, it seems to me, with the House Education and Labor Committee, our committee, and with the Department of Labor, and if the Department of Education is still around, we could just focus in on this one narrow area and see what you really can produce in terms of a resolution.

Mr. HAHN. We are working with the employer community. As I mentioned, the construction industry has the problem, which is

slightly different, but, for example, high technology—we talk about exports—highly skilled technology has the same shortage situation. I will try from our standpoint to put together a basis of an employer industry that has skilled shortages, and I will be very happy to work with all of you.

Mr. IRELAND. Mr. Chairman, before we hear the gentlelady, could we have a show of hands here. Are there other industries represented here that are in need of employees similar to what this testimony has indicated? Does anybody else represent industries with the same kind of problems?

So you are not the only one here in the group.

Mr. HAHN. Yes, and I will add that there is a meeting today over at 400 North Capitol Street where there are a lot of other people discussing this. We are going there right from this. The reason several of them are not here—the electronics industry's association, the Brick Institute—is because they are over there. So we would have more hands if we did not have this conflict in scheduling.

Mr. SMITH. Mr. Chairman, I have something I would like to point out.

Isn't it true that you are from one of the very few industries that are still 100-percent small business?

Mr. HAHN. We are 100-percent small business. We might have one company over there of a minimum size of 3,500 members, but we are basically small business.

Mr. MITCHELL. Does the union present any obstacles in terms of getting people?

Mr. HAHN. We are very small business. Our typical shop is 15 to 20 employees, and very few people are unionized. Very few shops of that type are unionized.

Mr. MITCHELL. Thank you.

Are there any other comments?

Now we would be delighted to hear from you.

TESTIMONY OF ROM D. POSNER, AMERICAN VOCATIONAL ASSOCIATION

Ms. POSNER. Mr. Chairman, I am Rom D. Posner from the American Vocational Association. First of all, I want to apologize for the conflict this morning. We had scheduled this trade association meeting a couple of months ago, as a matter of fact, so we have sort of absconded with a lot of representatives who would probably be here today, as Bruce mentioned, from the bricklayers association and the electronics association.

I would like to make a couple of points in reference to some of the questions that were brought up: Specifically, why does this paradox exist, that is, the mismatch between people who are unemployed in this country—and, in fact, we have an extremely high rate of unemployment—and at the same time we have some 60,000 jobs which are hard to fill, going unfilled in this country? There are a couple of reasons, one of which, first of all, is the emphasis which has been placed for the past 6 or 8 years, I would say, on the training of hard-to-place people, and that is a big differentiation that we have to make here—the difference between looking at hard-to-fill, highly technological jobs, and looking, on the other

hand, at the people whom we are trying to train to put into those jobs.

If you look basically at the CETA legislation, you will see the emphasis on hard-to-place people rather than on hard-to-fill jobs, so I think that the switch in the pattern that we are looking at, that is, looking at the jobs and looking at the people is due to Federal legislation in the past 6 or 8 years.

We at the American Vocational Association have become extremely cognizant over the past couple of years of the need for education to coordinate more closely with industry. As a result, we have established these trade association meetings such as the one going on this morning.

I would like to echo some of the remarks Bruce made. We think one solution would be some sort of tax credit within the legislation which would encourage small business representatives to coordinate with vocational education. While literally billions of dollars have been invested in vocational education over the past few years, there simply has not been the kind of investment necessary to keep our laboratories up to date and, as a result, the training programs have fallen behind. We simply cannot keep up with the high technology and the high level of skills required, even at the credit level, by many of the small business. So if there were only some way we could coordinate the legislation, it would help.

As Bruce mentioned, legislation is coming up for reauthorization this year. We are trying to look at ways in which educators and industry can coordinate, especially at the local level. It seems like a very simplistic thing. Of course, education is coordinating with industry, but that has not been the case with some direction from the Federal level and a lot of other levels, such as at the State level.

I think it is almost ridiculous for small business to have to invest in the kinds of training programs that are necessary on a wide scale. These area vocational technical schools, vocational high schools, and even comprehensive high schools have been investing many, many dollars in staff and equipment, and it would be ridiculous to sidestep that investment and have to put the burden on small business. So we are looking for some kind of coordination among—not between but among—the various pieces of legislation.

Mr. MITCHELL. Are there questions?

Mr. ROEMER. Mr. Chairman, I have a question, please.

Thank you for your statement. It was very informative. Have you looked at the President's proposal for education?

Ms. POSNER. Yes.

Mr. ROEMER. I notice that vocational was cut.

Ms. POSNER. Yes.

Mr. ROEMER. Have you looked that over, and have you an opinion on that cut?

Ms. POSNER. Yes, we do. We have a very strong opinion. Our feeling is that if we are trying to get back on an economic track that is going to lead to greater productivity in this country, a stronger defense base, and one emphasizing human resources, it is counterproductive to cut those programs which emphasize the development of human resources in this country. We do not see the logic in this approach. We don't understand why the President is willing to cut

training programs that supposedly will be the base for economic development in this country.

There are a number of States such as Louisiana, I might add, which are looking very closely at the role of vocational education in economic development, and we at AVA have put together a series of case studies to show that in fact the training programs not only at the secondary level but postsecondary level have a tremendous effect.

So we are trying to work with the White House as well as Members of Congress to try to get them to see the interrelationship between them and economic development in this country.

Mr. MITCHELL. Do other members have comments?

Mr. BEREUTER. Mr. Chairman?

Mr. MITCHELL. Mr. Bereuter.

Mr. BEREUTER. Thank you. Ms. Posner, looking at the vocational technical schools in my State, I am struck by the fact that when we have adequate people in this program, we have lots of people to fill that program. It is going to cost, and we are looking at high technology. I wonder if the cost is not so high that at the time of equipping the program in the school, at the time they introduce other programs, is the equipment cost a major concern?

Ms. POSNER. That is probably the major problem today. That is why we are looking at the area technical schools especially in Massachusetts and California where we are looking at a proposition such as rehab 13. The need is to look at some type of collective arrangements whereby communities can pool their resources and provide the high level, very expensive training, as you mentioned, for people among the various communities.

Mr. BEREUTER. Some of the schools that I have seen have made heavy use of donated equipment from various industries in order to help those industries themselves. Should we be directing some kind of assistance to help the schools equip themselves for teaching these programs as opposed to placing the emphasis elsewhere?

Ms. POSNER. Absolutely. That is why we are encouraging some sort of tax credit within the legislation so that small business will very logically connect with education, be it onsite equipment in the schools or perhaps some kind of cooperative arrangement so that students can work with the equipment at the site of the local business in the afternoon. If you look at the targeted job tax credit program and look at the State of Texas on participation in that, you will see that cooperative education students have been participating in that program more than all of the other eligible categories combined, and the response from small business has been overwhelmingly positive in that they are able to work with students who come directly out of training in the morning, and they can connect that classroom training to actual job experience in the afternoon.

I think another reason for the success of this program is that in those programs you have a coop coordinator who is one person who becomes that link between his or her job, to link that small business with that area school. So you have kind of a built in insurance policy or guarantee there that, for instance, the student will be there and the student will be trying very hard to connect that related skill training he or she receives in the morning to that expe-

rience in the afternoon. That is the sort of coordination we are looking for.

There are a number of varieties of training programs where you can coordinate either through the equipment at the school site or at the small business site.

Mr. BEREUTER. Thank you very much.

Mr. SMITH. Mr. Chairman?

Mr. MITCHELL. Mr. Smith.

Mr. SMITH. You have given a fair statement here for this record. I wonder, though, I am on a subcommittee of appropriations that handles education. Would you send me a letter stating your specific response to the President's recommendation?

Ms. POSNER. Yes.

Mr. MITCHELL. I think Mr. Stenholm wants to get in here.

Mr. STENHOLM. I have one comment. I think I have heard both of the first speakers saying the same thing. You are agreeing that we have got some problems in administering the training programs. I am an ex-vocational agriculture teacher myself. I spent 3½ years teaching vocational agriculture.

In my district, which is basically a small-business-oriented district, I am finding universally the school administrators are not very kind toward the vocational program, the paperwork in particular that is coming out of Washington in our attempt to meet the needs of vocational training. I think what I heard our previous speaker saying, if I heard him correctly, I totally agree with, and that is what we need to do is redirect and to allow more local input and less Federal intervention as far as setting the guidelines of the training program. I think that is what I heard you say just a moment ago.

So that the more we can coordinate locally, what I call the cooperative training programs are moving beautifully where we have the cooperation of the local business, where you have maximum input at the local level and the least amount of so-called Federal guidance from the Federal Government that you can possibly have. Is that what I am hearing you say?

Ms. POSNER. That is correct. However, in many States without the Federal incentive, that is, without some support from the Federal Government, we would lose a number of these programs. The President in his speech said that the Government at the Federal level in fact provides only 8 percent of the funding. That is true in terms of the number of dollars, but the impact that 8 percent has, and a proportion of that 8 percent on vocational education, is tremendous.

So, yes, I would agree with you that administratively, logistically, in terms of paperwork, there has to be some kind of smoother, easier route. However, if we pulled out totally the Federal incentive, a number of States are going to either reduce or terminate vocational programs because it is an easy way to solve the problem, very frankly.

It just costs too much, and there is no way for them to coordinate at the local level unless they can get some help. In many States, not all States, but in many States the Federal investment is critical.

Mr. STENHOLM. Then are you going to be saying that we don't need to make any changes, or there is no room for any cuts as far as vocational training? As far as efficiency in meeting the goal of a balanced budget, that vocational education should be completely exempted? Or is there some room, in your opinion, for making some changes at this level to make them more effective at the local level?

Ms. POSNER. We are saying that if vocational education is truly going to play its role in vocational education, the investment at the Federal level should in fact be increased.

Mr. MITCHELL. Yes.

Mr. WYDEN. I would just like to followup on the question because I think he really put his finger on it. We have a consensus already in this room that the targeted-tax-credit concept is a winner and it works, and I would like to renew it, and to expand it.

In these times there is going to have to be a situation of saying, well, there is something else that does not work quite as well. There is something else that does not have as big a payoff that we have to give up, and that is the kind of orientation I am looking for. I want to separate out and start moving quickly those concepts that win, that pay off, where someone like Mr. Hahn can come in and give us an outstanding cost-benefit analysis to be able to create 60,000 new jobs as against a modest kind of cost and be able to say at that time when we go ahead with the kind of tax credit or something else that works in the private sector, we are going to give a little bit somewhere else.

That is the kind of input I need. That is what my business community tells me. They want to begin to separate out those things that pay off and those things that don't.

Ms. POSNER. Right. I think the things we want to look at are the difference between those programs that seek to place hard-to-place people and begin to emphasize those programs which address hard-to-fill jobs, and that is where the shift, I think, in our resources and support should take place.

Mr. ROEMER. They are incompatible, in your view?

Ms. POSNER. They are not totally incompatible; it is just that they serve different objectives. One is more sociological; the other is more of a combination of sociology and economics. I think that vocational education is moving more and more on target.

To answer the question earlier as to why the mismatch, again, where are the successful programs? If you look at those programs in communities where advisory councils made up of representatives from small and big business sit and coordinate with vocational education, and not just through a rubberstamp kind of letterhead approach but where business representatives actually work together closely, go into the schools and work with the training programs, there again, you will see some very, very successful programs where students are grabbed immediately for placement at entry level jobs, that lead also to higher level skilled positions.

We see that as a major area where small business can really participate in the training effort.

Once we can prepare a student to enter the small business with basic literacy skills and the entry level technological skills that

they need, then they can cooperate even more closely with small business in order to raise people's skill levels.

It is not just a matter of getting people into jobs; it is keeping them in those jobs and moving them up that we are concerned with. Some of the other programs are simply more concerned with placing people.

Mr. CONTE. You advocate putting more money in vocational ed. I happen to be a product of vocational ed. I graduated from vocational high school as a machinist.

Ms. POSNER. Yes, I know that. I am from Massachusetts.

Mr. CONTE. I am the first Congressman to graduate from that kind of school. At that time we had no set program. I sat on that same committee with Neal Smith, and I have always been for vocational ed. The money for vocational ed is up to $1 billion.

One of the things the small business people are suffering from is high taxes and inflation, like everybody else. So if Congress passes 10-5-3 which the small business community wants, they are going to have to make cuts.

You are advocating putting more money in vocational ed; you do not suggest where we could cut?

Ms. POSNER. Well, once again, there are those programs that have been very heavily invested in through the comprehensive employment training program where publicly subsidized jobs have been seen as a form of welfare, and I think as a result of that there has been some confusion as to the amount of money that has been invested in vocational education, which again is concerned more with skilled training and the specific connection to existing jobs in the private sector.

I would suggest a strong look be made at those kinds of training programs which really are emphasizing hard-to-place people. That is not vocational education. I think we have to be very clear on that. As for the Federal investment in vocational education, the level of funding now is $767 million.

Mr. CONTE. Isn't one of the real problems out there, as I see it, that we don't have the right students, that they don't want to go to vocational ed? In my home town, in the machine shop course they are into the junior year; the senior year is already out there working in the labor force, and they are plucking from the junior year in high school.

Everybody wants to go to college today, either junior college or State college or some other kind of college. You have more damned kinds of political scientists today.

Ms. POSNER. Even in my home State, which is very highly vocational-ed oriented, as we all know, we are seeing a significant shift, even among those families where they fully intend to send their children to college. We see today that most people have to work during college; they have to get jobs. More and more students find that they have to work in college, and sometimes they take a year off. We know that it costs a lot of money to call in a plumber or to have someone fix your small appliances. We see this especially in cases like maybe where vocational education has a very negative association, where people in the past have said that vocational education is "for those dummies down there, and we will just stick

them in there and give them some skills." I think that image is changing very drastically.

Parents who plan to send their children to college are looking again at vocational programs and trying to get their students into vocational programs as well. The waiting lists in Massachusetts are papers and papers long.

Mr. CONTE. Waiting lists to get into vocational ed?

Ms. POSNER. To get into the programs in vocational training.

Mr. CONTE. Do you mean programs in vocational ed in high school?

Ms. POSNER. Not so much in vocational ed but in the area of technical schools. Look at Blue Hills, for instance, or Minuteman. Those schools are backed up with waiting lists a mile long.

Mr. MITCHELL. You are very patient, because I know you have another meeting. Is that meeting at 10, or is it now?

Ms. POSNER. It started at 9.

Mr. MITCHELL. It is clear, because of the participation, that this has been informative. The participation shows that the discussion has been provocative.

Whatever else we do as a result of this discussion, I for one remain committed to the idea of going back to one patch of yours and just bringing everything to bear that exists in the Government and in the private sector and in the schools to see what we can do to resolve this. Maybe if we study one area or take up a particular problem area through a combining sort of operation, we might be able to set a model for other areas.

Thank you very much. Your presentation has been very stimulating and very helpful.

Ms. POSNER. Thank you, Mr. Chairman.

Mr. MITCHELL. We will next hear from this gentleman. I know you have been waiting for some time.

TESTIMONY OF WALTER STULTS, PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Mr. STULTS. My name is Walter S-t-u-l-t-s, president of the National Association of Small Business Investment Companies.

Very briefly, I would like to make about four points, if I might. I believe that every segment of the small business community feels capital formation is the chief problem facing smaller firms today. This includes the retention of capital which would come through the President's proposal on 10–5–3, a liberalized and very much simplified form of capital cost recovery.

Second, the general tax cut which is proposed would help probably 65 percent of all businesses, that is, those that are unincorporated, and, in addition, would help those that elect subchapter S tax treatment, so that the so-called Kemp-Roth is not a strictly personal or individual tax cut. It will help tremendous numbers of small businesses.

I would also say that our association and, I think, all other small business groups strongly support the administration's proposals to cut spending. We understand that this will cut SBA's budget. It will cut specifically the SBIC budget, the group that I represent. Nonetheless, the greatest factor causing business failure has been

the inflationary period and the high cost of money. There is no way that we see to get around that as long as the Government keeps spending more and more money and as long as taxes keep going up and up.

You talk about a tax cut this year. You are forgetting the fact that there is something like a $85 billion tax increase this year, counting social security and the bracket creep. So no matter what the administration proposes and the Congress disposes, we are going to have net fund increases in Government take in revenues. We feel that vicious cycle must be turned around, and the small business community supports that.

The regulatory reform is another way of reducing expenditures both by the Federal Government and by businesses which must live up to all sorts of ridiculous regulations. SBA is the group over which you have direct legislative authority. I hope very much that you will grill the nominated administrator—I hear the President sent his name up to the Senate for confirmation on Friday—and make sure that he has the type of commitment that is required to run SBA and make it an effective, efficient agency.

I would say that the second most important job in the SBA is the Chief Counsel for Advocacy. We have had an extremely able guy there for the last 3 years. I hope very much that the new President will send up a good nominee for that spot.

Mr. Chairman, you and others have been quoted as saying that you expect to spend a lot of time on oversight this year. I believe that oversight of SBA and other programs is a perfectly appropriate and obviously very necessary part of your operation. Nonetheless, with the dozens of problems which impinge and threaten the survival of small business today, oversight that is looking to see what was wrong in the past is not sufficient. I believe we must also look to see how the job can be done better in the future.

The subcommittee No. 5 under Mr. Nowak has taken a very active view and a very active role during the last several years on deciding ways to help small business through tax reform and other capital formation ideas. Former Chairman Smith introduced very good legislation there. I would recommend that this committee review the past activities in that field and give it a real hard try, working with the Ways and Means Committee in getting a good small business tax bill this year.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much. You see the pending legislation. I think that was in your packet. Did you get a copy of it?

Mr. STULTS. Yes.

Mr. MITCHELL. We certainly intend to follow through on those pieces of legislation and try to get them implemented.

Mr. STULTS. Thank you, Mr. Chairman.

Mr. MITCHELL. There is just one quick question from me.

Did I understand you correctly to say that the Kemp-Roth approach, apart from the personal income tax, would be beneficial to small businesses as it is presently structured, and as it is presently written?

Mr. STULTS. Yes, Chairman Mitchell, because 64 percent of all businesses are unincorporated; that is, they pay the individual tax

rate. Therefore, a reduction of their taxes by 10 percent does mean a business tax cut of 10 percent or 30 percent over a 4-year period.

Mr. MITCHELL. Do other members have questions or comments?

Mr. CONTE. Mr. Chairman, if you had your choice as a small businessman, would you take 10–5–3, or would you take a 10-percent cut across the board, if you could only afford one?

Mr. STULTS. Mr. Conte, I don't think we have got to afford only one. But I think what the small business community is saying is that there should be enough cuts in spending that we feel we should have a balance so that we can get them both. In the past, admittedly, tax legislation has had about a two-thirds individual, one-third business composition. Kemp-Roth and 10–5–3 appears to be skewed in at four-fifths and one-fifth. So we would hope, as the bill progresses through Congress, that there are ways for further capital formation and items that are more for productivity and for the business community.

Mr. MITCHELL. Are there other comments or questions?

[No response.]

Mr. MITCHELL. I thank you very much.

Mr. STULTS. Thank you, Mr. Chairman.

Mr. MITCHELL. We will hear from you next, sir, if you will come up here, please.

TESTIMONY OF DENNIS LAVALLEE, DIRECTOR OF GOVERNMENT AFFAIRS, NATIONAL ASSOCIATION OF PLUMBING, HEATING, & COOLING CONTRACTORS

Mr. LAVALLEE. Mr. Chairman, we do have some statements that are available for the committee.

Mr. MITCHELL. Your name, please?

Mr. LAVALLEE. I am Dennis Lavallee, director of government affairs for the National Association of Plumbing, Heating, & Cooling Contractors.

Your letter did ask for a suggestion for an agenda for the 97th Congress. I will state what that is, and I will summarize briefly as well as give some statements our association or some of our association staff made.

We talked a little bit about taxes and tax reform and the capital cost recovery approach, and we are quite aware of some of these issues. In somewhat of a response to Mr. Conte's questions, reductions may also be in the works. We have not addressed that totally from our end, but we believe, with spending cuts governmentwide, both may be possible.

There has been some discussion this morning regarding vocational education. I would like to call the committee's attention to something that, at least within the construction industry and in the plumbing, heating, and cooling industry, has been very effective, and that has been our apprentice programs. Our association has been a sponsor of the fuels feeder program. One is in conjunction with the United Association of Journeymen Pipe Fitters, and so forth, which is essentially a joint union-management program and which does provoke vocational training. They are usually 4-year programs, with training and on-the-job experience. We likewise have sponsored and produced open shop apprentice programs.

I would like to go on and say that this has been done by the industry itself. The program is approved by the Bureau of Apprentice Training, and we have attempted to go out and seek financial support. We have gone to our manufacturers and others to get assistance and in fact have sponsored programs of our own to spur new incentives.

For example, in the solar area we have a program with some demonstration projects. We have had equipment donated for demonstration programs to install solar equipment. One of them is on the roof of our building in downtown Washington, and we were then able to promote them in other areas, and other industries and other groups have picked up on them. There is one that we have in the Surratts-Clinton Library in Prince Georges County, Md. These materials for these demonstration projects were donated completely to us for that purpose, and we have gotten a commitment from them providing the cost for apprenticeship programs. We take these projects and put them back together again the next year, and a new class comes along and does likewise.

There are a number of opportunities existing in the small business community, at least in the plumbing, heating, and cooling industry, for training staff to take advantage of tax credits, things of that sort. Some of these things, because of business expenses, are already taken on a tax credit type basis, but additional incentives do make further improvements. These materials do cost money, and they have to bear the cost. Those may be things which the committee may want to explore.

Going next into the regulatory reform area, which is an area with which we are also concerned, there are several areas the committee may want to look at, recognizing that some of this jurisdiction lies in other committees. The reduction of paperwork continues to be a growing concern, and also a reduction of costs and the time to comply with these types of things.

We are very pleased with some of the efforts that have already been going on, particularly in the last few years, especially the clearance of OMB forms and paperwork budgets, and so forth, from the agencies, which we think are all very valuable.

The cost of complying with the regulations is also obviously quite important. You may be aware that the Small Business Administration has done studies of some of this. With regard to some particular programs and agencies, we can all point to areas, and we believe in the Davis-Bacon area this is an area where there might be a way that we might improve on that. We are not saying it should be repealed, but we ought to be studying ways where we could make that less burdensome. For example, one of the requirements, as I understand it now, is that there are weekly reporting forms, and yet these forms accumulate over at the Department of Labor and it is quite a while before they are looked at. Perhaps there might be some other mechanism that might be used which might be less burdensome and still keep the requirements for that.

OSHA has come into criticism, and there may be areas there that are necessary for reform. For example, OSHA's efforts in the past have been primarily aimed at a combative role with some businesses, and a more cooperative attitude with business, in an at-

tempt to make more safe workplaces, might be in order rather than coming down on them in a more opposite side point of view.

Duplication of regulations is also a problem. The Occupational Safety and Health Administration's regulations do cover work done in a building on top of a minesite, and the Mine Safety and Health Administration's regulations are not always in conformity. There is some duplication there, and there ought to be some consideration given to eliminate some of that duplication. For example, we could leave OSHA regulations in place to overlook matters relating to safety and let MSHA have coverage in those sites or areas directly related to mining. There may be areas there where the regulations could be stopped if it is determined that they are unneeded at any time.

The Environmental Protection Agency has been looking at a regulation which would regulate fluorocarbons, that is, refrigerants. There seems to be some question whether there is really an ozone problem, and yet the Environmental Protection Agency, with little or no significant evidence that there is a problem, is charging ahead with an effort to regulate and perhaps even control the amount of refrigerants which may be used, which could have a severe impact, particularly on the heating and cooling contractors.

Mr. MITCHELL. Those regulations are not in effect yet.

Mr. LAVALLEE. Those regulations are not in effect yet. They were proposed last fall. I believe there is some effort in fact before the Congress now, and I believe Mr. Lujan in fact is the sponsor of legislation stopping those regulations until there is evidence in fact that we need them and that there may be some problem with ozone in the upper stratosphere. I think those might be areas that this committee may want to look at.

In addition, there are areas such as the building energy performance standards. You have looked at those. There is a huge mass of background technical documentation and regulations, and so forth, with really no solid evidence that they are going to work. They have proceeded with these proposals. Fortunately, they have now been delayed, but we believe there ought to be at least some test areas or some particular effort making sure that some of these areas will in fact work or, if they are implemented, will result in energy savings.

Another area that I think this committee may want to take a look at is this: Although we all support the concept of trying to create and provide job opportunities for all Americans regardless of race or sex or whatever, some of the requirements are unduly restrictive when it is practically impossible to completely require them. For example, the office Federal contractors compliance program within the Department of Labor has issued goals and timetables for both minority and women involvement in the construction industry, and in many cases it is just not possible, at the rate at which it has been proposed, to bring them in.

The Mechanical Contractors Association here in the District of Columbia has had a tremendous outreach program to attempt to bring women into their apprenticeship programs, and when they got through, they had tremendous outreach through radio and through the newspapers and advertisements, and so forth. They did get a few women who did come out, and I suppose in some areas

some 7 percent did apply, but my understanding is that, even after this tremendous effort they put out, they had a very small response. It is very difficult to reach a 6.9-percent ratio employment and get the people coming into the program, despite the outreach efforts.

What this means to a small business contractor or the plumbing, heating, and cooling contractor, whatever, if he is not meeting those goals, he may be denied a direct Federal contract, whether he made the effort to employ women or minorities or not.

We do all we can on the State and local level, and we are involved in almost every element of American society. I think where we have proposed those sorts of goals and timetables, we ought to look at how realistic they are in light of how practical it is to in fact reach those people.

In some areas they perhaps do have some specific application to this committee, and we believe this committee should conduct oversight hearings of the Regulatory Flexibility Act implementation. Agencies, as you know, are required as of January 1 to begin complying with the Regulatory Flexibility Act. Unless there are oversight hearings which question how they are proceeding with that, we feel many agencies may not fully implement that act, but with direct questions from the Congress indicating its concerns for the implementation of it, we believe it will serve as an impetus for agencies to implement the Regulatory Flexibility Act.

We support the strong and independent Council for Advocacy which has existed, and we hope this committee will continue to support the people to have a small office there which can advocate the interests and concerns of small business within the Government.

The small business advice standards, if and when they come back from the Small Business Administration, should be equitable. One problem we specifically experienced is that the basis they used was the number of employees. The construction industry is very cyclical. Even with a small 5-person firm, you could easily have much more than 50 employees as proposed, simply by the rotation that does occur in the firm, because employees are hired by the job. We believe an equivalent matter of approach or equivalent manner of approach would be to make a change in this area. If you multiply out 2,000 hours as being 1 man-year, that is something far more beneficial, at least from the standpoint of the structure of the construction industry.

Likewise, in the area of procurement we believe there should be promotion of the integrity of the competitive system that uses bidding and perhaps even bid leasing, that is, rather than necessarily giving preference because a firm is a minority- or women-owned firm. We believe they can be as competitive as any other business, and that by promoting the competitive system, we will tend to promote minority- and women-owned enterprises because they then are forced to make the business decisions which are necessary to compete effectively. We see nothing wrong with efforts made to attempt to assist them, whether it be with the Small Business Administration or in other areas, but we believe we should not be sacrificing the competitive system for the purpose of some of these

social goals. We believe that it, in fact, may prove itself and will assist these types of companies.

Mr. Chairman, I thank you for the opportunity to speak, and I will answer any questions that you have.

Mr. MITCHELL. You have given us quite a bit to digest. Are there questions?

Mr. ROEMER. Yes, Mr. Chairman. The statements that you made this morning, are they included in your handout?

Mr. LAVALLEE. Yes, they are all included in that handout.

Mr. ROEMER. Thank you.

Mr. MITCHELL. Are there any other comments?

[No response.]

Mr. MITCHELL. I have one or two questions, if I may. You said that weekly reporting is now required?

Mr. LAVALLEE. Mr. Chairman, it is my understanding we are just getting into some research on the Davis-Bacon Act right now, but it is my understanding there are weekly reporting requirements for Davis-Bacon. I have not had a chance to verify if that is only in selected cases or in all cases. As I say, we are still evaluating that.

Based on that understanding, the suggestion has been made within our industry that they feel that there is excessive reporting required at the current time, and that perhaps less frequent reporting might be required. I understand that someone is simply seeking to see if Davis-Bacon rates are being paid on perhaps a quarterly basis or some other less frequent sort of method and whether in fact in some other areas less frequent reporting might be a way of decreasing the paperwork burden.

Mr. MITCHELL. This is not a question and I will not dwell on it ad nauseam, but for 10 years I have tried to work with minority business, and although I am a firm believer in the free enterprise system, it is readily apparent to me that based on that 10-year experience and given a whole set of circumstances in our economic system for now, there must be some added protection given to minority businesses.

I think my record is pretty clear on this, and, therefore, I am in some slight disagreement with you in terms of absolute open competitive bids. Practical experience has shown that that rarely happens. If we had the best of all worlds, fine. If there were equal access to capital and all the other things that are available to the larger community, if all those things were available to the minority business community, I would be the first to say, "Let's drop this approach." If we worked toward that goal, which I hope is everyone's goal, I would feel very strongly about setting aside this policy.

Mr. LAVALLEE. I understand your position, Mr. Chairman. My point is that there may be another approach that should be explored rather than having groups of small businessmen rely on this sort of system and possibly not become independent from it so they are competing with other small businessmen.

Mr. MITCHELL. As I said, I wouldn't belabor it, but the fascinating thing is that there are minority businesses in the system that are functioning well, and they have reached the point where they are quasi-competitive at least and they would not have reached that point if there had been this undergirding action before.

Thank you very much. We are ready to recognize the next speaker.

TESTIMONY OF JOHN MOTLEY, DEPUTY DIRECTOR, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. MOTLEY. Thank you, Mr. Chairman. My name is John Motley. I am deputy director of the National Federation of Independent Business.

First of all, before I get into any of the other things I would like to talk about today, I would like to compliment you on this attempt to reach out to the small business community and find out what some of the concerns are, and I hope, on behalf of NFIB and its 500 member firms, that you continue doing so in the future.

NFIB has prepared its list of legislative priorities for the 97th Congress and also a list of 27 suggested hearing topics for the Small Business Committee, and I hope each of you has received copies of both. I know they were sent around to your offices, and where we were able to identify your Small Business Committee staff, I sent copies to them also. If you don't have it, I would be happy to make it available as quickly as possible.

While there are many, many industry-specific problems in small business today, gasoline stations as just one example, NFIB members have been telling us for the last 6 years that the No. 1 problem they have is inflation. That problem has gotten particularly worse in the last 6 years, and if that is not enough of a problem, they are now being killed by high interest rates. They are not going to work for something they are unable to cope with, and bankruptcies are up tremendously over the last several quarters.

Therefore, the No. 1 Federal priority of the 97th Congress is to reduce Government spending. We are committed as an organization to support large cuts in Government spending, and we will support them so long as they are fair and across the board. I have testified before the House Budget Committee already, and our testimony, which I think has been made available to members of your committee, recommended somewhere in the neighborhood of a 20-percent cut in the budget of SBA. So we are willing and I think our membership is willing to see the Small Business Administration's budget cut, in the belief that everybody has to take some cuts if we are to bring our Federal spending under control.

The second priority of the federation during this Congress is for a fair and equitable tax cut. We are very much in favor of the capital cost recovery system which has been recommended by the administration. In fact, I think it is no secret that we had some part in drafting the particular proposal, not the one submitted by the administration but the one that was introduced as legislation.

If I may answer a question that was posed before by Bruce Hahn when he was up here and pointed out the effect on small business of the so-called transition period, I believe the best program is in the Jones-Conable bill. The first $100,000 in the 5-year life category is phased in immediately in the first year, and since only 8 percent of the firms of this country has capital investments of over $100,000 on an annual basis, it should cover 92 percent of all the

firms in this country right off the bat. So the problems for small businesses, as far as 10–5–3 is concerned, would be eliminated.

Outside of capital cost recovery, probably the No. 1 priority in the federation is a cut in taxes, and specifically a cut in payroll taxes. The survey we have done over the last couple of years has shown the rapidly increasing payroll taxes small firms pay are the most onerous of all taxes for roughly 74 percent of the small business community. Let us remember that small business has been responsible for creating well over 43 percent of all the business in the private sector in this country in the last 10 years, and payroll taxes are nothing more than a tax on labor. The more we tax that labor, the more chances we take in really doing damage to the goose that laid the golden egg. I would ask you, if you do anything over these next 2 years, that you begin to look at the impact of payroll taxes, not only social security, but all unemployment compensation and other taxes levied against payroll as being a particularly onerous tax on smaller firms. It is a tax which could eventually hurt them immensely in their job-creating capabilities.

That brings me to our third priority for the 97th Congress, and that is a reform of the social security system. I realize this committee will not do anything about that, but NFIB has been working for a number of years with Dr. Michael Boskin of Stanford University, who is one of the foremost authorities on social security today, and we are now in the process of drafting a piece of legislation which would, we hope, reform the social security system in a very fair and equitable manner so that it eliminates the problems with the long-term funding and also in the end reduces payroll taxes for smaller firms.

Let me just for a second go to the second document I submitted to you, and that is the hearing topics we suggested for the committee. I believe it would be terribly tragic if this committee did not pay particular attention to the implementation of the three pieces of legislation that you helped pass during the last Congress and that are there for the benefit primarily of the small business community: First, the Regulatory Flexibility Act; second, the Equal Access to Justice Act; and, third, the Paperwork Reduction Act. All three of these pieces of legislation taken together could provide some dramatic help for smaller firms in dealing with the regulatory overkill imposed by the Federal Government.

I think NFIB, like most of the other organizations represented in this room, is terribly concerned over the possible attempts on the part of the bureaucracy to sidestep the intent of these pieces of legislation, and we do hope you will keep your eyes and ears open in an attempt to see that the first piece of legislation, the Regulatory Flexibility Act, is implemented rather quickly.

There are also several other areas that we believe the committee can get into very profitably on behalf of small business. One of those is the trend, the increasing trend of the Federal Government to compete with smaller firms, taking more and more goods and service production in-house rather than contracting them out. Not only does it compete with smaller firms, but it also tends to reduce the tax base. There are studies that have been made. SBA has furnished a task force report on Government competition with the private sector, and NFIB has several studies which we will make

available to you by some economists who have made a study of the effect of competition on the private sector in California after the enactment of proposition 13, leading to the conclusion that these goods and services can be procured much more cheaply in the private sector, and that in effect is one of the reasons why the State of California has been able to accept proposition 13.

I do not suggest to you the situation is getting out of hand when the House of Representatives decides it should go into competition with the private sector by selling alcoholic beverages at receptions and other activities that are held here in rooms which are controlled by the House caterer instead of going out, as in the time-honored practice, and purchasing those refreshments from the local firms on Capitol Hill.

Mr. MITCHELL. We are all teetotalers up here, sir.

Mr. MOTLEY. I understand.

I have also mentioned payroll taxes, but to reiterate and to underline the problem, I do believe that some long, hard look should be given by this committee to the impact of payroll taxes and other labor-related taxes on the job-creating capabilities of the small business community. It is terribly important. I would hate to see us 10 years from now suddenly waking up and deciding we should try to look into the reasons why small firms in this country have stopped creating new jobs. We would be in a terrible fix.

Last but not least, I think this committee could take a very strong role in developing the data out there and show the Congress the need to do something again with the estate and gift taxes. We had a reform in 1976. At that time it was tremendously beneficial, but a lot has happened since 1976, including almost 4 years of double-digit inflation, which seriously undermines the effect of that reform. If the continuation of a strong and viable private sector is important to this economy—and I think most economists will agree it is—then I think we should seriously look at the process of eliminating estate and gift taxes of small firms that are kept in operation and are passed on within generations within the same family.

Thank you very much, Mr. Chairman. I will be glad to try to answer questions.

Mr. MITCHELL. Thank you. Do the members have questions?

We will start on this side.

Mr. ROEMER. Thank you, Mr. Chairman.

I appreciate your defense of the alcohol industry, being a diabetic and a nondrinker.

You hit a nerve in me when you talked about reform in social security. You didn't give any details at all, and I am sure it is in the pamphlet that was distributed. Would you hit two or three points on that, on this subject that concerns me specifically? That is, would you be specific about how you would reform it?

Mr. MOTLEY. The reason we got into the reform in the first place, Congressman, is again the rapid increases in payroll taxes over the last decade and the effect we see that having on smaller firms. We believe one of the reasons or one of the causes of this rapid increase in payroll taxes is all of the supplemental programs that have been added to social security and are funded out of payroll taxes, programs that were never intended to be put in as part of social security.

Social security was created as a supplemental retirement program, not necessarily as a supplement welfare program. We have SSI to take care of those problems.

So our approach to this and Dr. Boskin's approach is to take the program and start at the beginning and actually create two programs out of it. We feel they are trying to solve two problems, one of helping retirees and one of basically helping older people and those who are in need. What we would like to see, then, is to see the program cleaved in half and create a retirement program on one hand which would still be funded out of the social security tax and from which everyone would receive a return from the dollars put in, consistent with a reasonable return to the recipient if that money were invested, and, on the other hand, an SSI program which would be means-tested so that no one in this country who is elderly and no one in need in this country would go wanting.

It is a very simplistic answer to this question. I do have a great deal more information on it, and I would be glad to make it available to you.

Mr. ROEMER. Would you change the eligibility ages over time in these reforms of your association, or are these your personal opinions?

Mr. MOTLEY. As far as the eligibility age is concerned?

Mr. ROEMER. On social security.

Mr. MOTLEY. On social security, that would be the position of the organization, yes, very much so.

Our problem is, I think you might know, that our positions on legislation are set by a poll of our membership, and we have on two occasions polled increasing the retirement age to 68. That is one single action that would take care of the long funding problem immediately.

Mr. ROEMER. What was the result?

Mr. MOTLEY. The membership voted against increasing the eligibility age to 68. So that would be the one recommendation that we could not support, and, very frankly, that is one of the reasons why we have gone into the very expensive and complicated area of trying to reform the whole system rather than taking one quick fixed step.

Mr. MITCHELL. Are there other questions?

Mr. SMITH of New Jersey. Mr. Motley, I am very interested in the elimination or perhaps elimination of the estate tax threshold currently in place in bills which would increase it to a million.

Have you worked up any facts or figures or projections as to how much Government revenue would be lost if the estate tax was eliminated; and, No. 2, can you tell us what kind of a stimulative effect this would have on the continuation of a small business, particularly with respect to a member of the family?

Mr. MOTLEY. Congressman Smith, I do not have any figures that NFIB has worked up on this, but I have been in meetings over at the Small Business Treasury Advisory Committee in which Treasury and IRS officials have indicated that estate tax are almost not worth the expense caused on the Department of the Treasury and IRS to enforce them. The revenue loss would be relatively minor, especially if you specifically hit at it in the small business or small family farm sector.

The problem that you have with smaller firms is the tremendous increase in valuation, as you know, because you come from a family-owned business, that has occurred over the last couple of years.

When they face the IRS as far as estate taxes are concerned, how are they going to pay for it? They can't go to the bank and borrow the money at 18, 19, or 20 percent, even though IRS allows them some rather liberal terms. They have most of their money tied up, and it is extremely difficult.

So what generally happens in a situation like that is that the small firm sells off part of that firm or liquidates the entire firm simply to pay taxes, and I think this is a situation we want to try to avoid.

Mr. SMITH of New Jersey. Thank you.

Mr. MITCHELL. Are there other questions?

Mr. BEDELL. Has your organization taken a stand on the President's Kemp-Roth tax proposal that he submitted?

Mr. MOTLEY. Let me start out by echoing what Walter Stults said before. There are a very large number of small businesses in this country who do business as sole proprietorships, partnerships, and subchapter S corporations, and therefore, they would directly benefit from a 10-percent, across-the-board tax cut. In fact, the majority of small businesses in this country do business that way. But I think if you take a look at the total size of the 10-percent, across-the-board cut, probably no more than 6 percent of the total dollars end up in the pockets of those people who are entrepreneurs.

So we would look on it as a relatively inefficient way to cut taxes for small business. We had endorsed it in the past, back in 1978, as probably one of the few ways at that time that was available to get at an unincorporated business. We don't want to say we oppose it today because it is still one of the few ways to get at unincorporated businesses, but we are tremendously concerned about the inflationary impact of what we consider a man-sized tax cut that would go to all the consumers out there. Since inflation is the No. 1 problem for small business and this cut may indeed cause another round of inflation, we are reluctant to come out and say we would support it. We would much rather see some attempt to be made in the Ways and Means Committee to reduce social security taxes which would apply to all businesses across the board, because half would go to the employer and half to the individual and the individual side would not come into it until late in the year when they worked it into the tax tables. This is the very least inflationary approach.

Mr. BEDELL. Your answer is that you would support the tax cut, but there are other approaches that would appear to you to be more than official to small business?

Mr. MOTLEY. Yes, sir.

Mr. SMITH of Iowa. Mr. Chairman, I would interject at this time, on your comment about the estate inheritance tax, that I think a lot of the people have forgotten that 80 percent of the estate taxes go back to the States, so the impact on the Federal tax is really minimal.

In addition to that, the reason the estate tax was put in first, to start with, was because some States had none and some States had

a high one, causing people to go across State lines, and so forth, to avoid the estate tax.

But since that time the States have come along with an inheritance tax which has come down to just about the same thing the old estate tax used to be.

It might be better, while reforming the estate taxes, to reduce them considerably but at the same time to exclude the States from the inheritance tax, in other words, preempt that area, too. I think there is a lot of misunderstanding about what the estate tax does.

Mr. MOTLEY. I think any area that would help small family owned businesses and family-owned farms overcome the problems the estate taxes causes would be very beneficial for this committee to look into. It is a long-term goal.

Most small businesses are not terribly concerned about estate taxes right now because they are not paying them, but when you determine the possible impact of estate taxes on the future of small businesses and family farms in this country, you have to begin to worry about what we are going to have a couple of decades down the road.

Mr. MITCHELL. Are there any other questions from Members?

Mr. LUKEN. I was interested in your statement that you are reluctant to oppose and reluctant to support the full Kemp-Roth. Isn't that basically what you said?

Mr. MOTLEY. Yes.

Mr. LUKEN. It seems to me that if this reluctance is widespread, the President's complete program may well be passed even though people are generally opposed to it because they are just reluctant to say so.

Mr. MOTLEY. Mr. Luken, I understand what you are saying.

Mr. LUKEN. May I add that I came back from a weekend, a long weekend, of talking to people in my district, and many of them said, "You've got to support the President's program."

I said, "That's fine," and I started to talk to them about specifics in the President's program like Kemp-Roth, and I found very few of them who want me to vote for Kemp-Roth.

I am not suggesting that is a scientific sampling, but until we get a coalition or a number of groups who are in fact opposed to say so, we may have something that we don't necessarily want.

Mr. MOTLEY. Mr. Luken, I think or I know for a fact that NFIB in the next couple of weeks will be telling members of the Ways and Means Committee and the Senate Finance Committee that of the choices that are available Kemp-Roth is not certainly at the top of the list and we would much prefer to see other types of tax cuts that would help the small business community better. But when you get down, as you do in any particular type of bill in the Finance Committee, to picking from a series of choices, it may at some point in time happen that Kemp-Roth becomes the better one, simply because of its impact on unincorporated firms.

Mr. LUKEN. Yes. I will ask you one more parochial question.

Since I have succeeded to the Antitrust Subcommittee, which Mr. Bedell had the last time, the administration seems to be making some sweeping proposals with reference to the FTC which the FTC is interpreting as a phaseout of the antitrust jurisdiction of the FTC.

Is this something you think we should be going into? Have you considered it a major item, or do you care to comment on that?

Mr. MOTLEY. No; I do have a comment on it.

NFIB, like the National Small Business Association, does not care particularly for the administration's proposal in the area of the FTC. Mind you, we don't mind saying that the Federal Trade Commission could be cut 30 percent if those cuts were fair and across the board in all programs, but to single out the Bureau of Competition for 30 percent or for all of that 30-percent cut is tantamount to eliminating the Bureau of Competition, and we don't particularly think it is a good way to proceed. We have, I believe, as of Friday, sent a letter to the OMB Director, David Stockman, and to the President suggesting that he reconsider that particular cut.

Mr. LUKEN. Would you furnish that to the members of the committee? You can do it individually or send them to me and I will send them on to the others.

Mr. MOTLEY. Certainly.

Mr. SMITH of Iowa. Mr. Chairman, I think generally the Small Business Committee membership has said that the Bureau of Competition should be the No. 1 thing the FTC should be doing and some of the other things they do they should never have gotten into. Now we come to a proposal that is just exactly the opposite. It says, "Don't bother with competition. That leaves you free to do all these other things."

Isn't that about a 100-percent turn in direction?

Mr. MOTLEY. That is about a 100-percent turn in direction. We have no problem with that 30 percent coming out of consumer-related programs.

Mr. LUKEN. So-called consumer-related programs.

Mr. MOTLEY. So-called consumer-related programs. But to take it out of the Bureau of Competition is just the same as eliminating the program, and we don't think it is a good way of eliminating the program, without holding hearings and having time to consider that program.

Mr. DAUB. I am curious about whether or not you have studied the bottom lines of what Roth-Kemp may accomplish, and I am not saying it ultimately gets us to an objective desirable in the long run, but it may in the short run. What in fact that consumer may have in his bank savings or investments, I don't contemplate he is putting it in a coffee can and burying it in the backyard, and the ultimate cyclical effect of that is that he will have more money for our small businesses in relation to being a customer of those small businesses, so ultimately the payroll taxes become easier to pay because the volume of sales has something to do with profit margins.

So I would appreciate having the benefit of the economic depth with which you have studied it and which seems to place you in the position of being rockbottom on that particular aspect of the President's program.

Mr. MOTLEY. Mr. Daub, we not only have studied it but we are continuing to study it at rather a vigorous pace. There is a great deal of discussion internally within the organization among our economists as to whether or not Kemp-Roth would be good, mediocre, or bad for small business.

I think that what it comes down to, if I can interpret what they are saying to us, is that at this particular point in time they are very fearful that the 10 percent won't be saved but, because of the pressures on the economy over the last couple of years, it will be spent immediately, and if it is spent immediately, then we may simply have another increase in demand and more inflation.

Mr. DAUB. That may very well be true, and I would like to have the benefit of their analysis. I am concerned with what the current forms of savings are in the latest period because the day you don't have that it might be twice as expensive. So the forms of savings we have had are related to their ability to buy the toaster or the car, at the same time allowing that money to be channeled into the incentives and conventional forms of savings, the passbook, the savings and loan, the credit union, and the bank account, which in turn gives capital formation a last cost of money availability to those small businesses to borrow. I don't think we are going to channel our savings into a more long-term availability for small business if we ignore the tax cut side to the 64 percent of the businesses which are small businesses, and they would probably want in this Congress to get the real meaningful business tax cuts to stimulate their ability to stay in business.

Mr. MOTLEY. I don't think there is anybody in the small business sector who would disagree with the need for long-term capital formation in this economy, especially in the area of increased savings, increased investment in pension funds, or whatever. Most small businesses get their financing through banks or through financially retained earnings, or they go out to their friends and business colleagues and borrow money.

So that type of long-range savings is definitely needed. I think what the economists are arguing now about is the right time and the right method of cutting taxes.

Mr. BEDELL. Mr. Chairman, will the gentleman yield?

Mr. DAUB. I yield.

Mr. BEDELL. I don't understand the argument. I am confused by the gentleman's argument, and I really need to understand it.

Is the gentleman's argument that the tax cut would result in more spending so there would be more business for the small business person? Is that what the gentleman is saying?

Mr. DAUB. I am not making the argument at all. I have heard the testimony, and I am asking for their economic analysis of why the individual tax cuts may not be what small business, from their point of view, needs in this short term.

Mr. BEDELL. I understand that, but the gentleman did make some points as to what he thought would happen. Was what the gentleman said that Kemp-Roth would be giving people tax cuts, and, therefore, it would give people more money to spend and they would go out and spend it with small business? Did I misunderstand him?

Mr. DAUB. No; not to that effect. I believe it could have a positive effect and the benefit of the tax cut would go to small business if more conventional forms of savings were available, and that means the workers with income would be increased by an individual tax cut.

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Mr. BEDELL. Then the gentleman does not believe this tax cut would result in people having more money to spend and would bring more money to small business?

Mr. DAUB. I think in fact it would, but I would like to see their analysis of it.

Mr. BEDELL. But the gentleman thinks that would be the result, that a tax cut would result in people having more money to spend, so there would be more money available to buy things from small business?

Mr. DAUB. I think that is one of the potential short-term advantages, and that is why I would like to have their economic data.

Mr. BEDELL. I asked the question just so I know. To me that is the danger, because it appears to me that if we get some benefit, if we get increased productivity in exchange for savings and in exchange for this tax cut, many more people are going to have the money to buy more goods. It appears very clear to me.

It seems to me that we are going to be on the supply side of the economics or the production side, and you have got to decide whether it is the supply side or the demand side. It seems to me you can't argue both ways, and where I have trouble with the gentleman's argument is that he was arguing for the demand side where apparently the policy is for the supply side.

We don't want to argue this a great deal in committee, but I think unless we get this on the table and talk it out—this isn't a partisan issue—and do what is best for the small businessman, then I think we have troubles.

Mr. DAUB. I would tend to be in agreement with a good deal of their analysis of this point. They have always been open-minded on the actual application of that material to this tax bracket reduction question, so I think this information may be putting the question squarely on the table, and I am glad it happened in the committee this morning.

Mr. MITCHELL. I know there are many more questions, but there are lots of people who want to make statements, so if you can, maybe we can hold off on additional questions. We want to give everybody an opportunity to speak, and if that is agreeable, I would appreciate it.

Mr. MOTLEY. Thank you very much.

Mr. MITCHELL. Also let me say that in no way is the Chair interested in trying to constrain the area of discussion, but I would appreciate it if you would try to focus more on those things which fall under the purview of this committee.

While it is true that we are interested in tax proposals, and so forth, actually that work will be done by other committees. We are interested in those things contained in your recommendations, statements, and proposals that relate to things which fall under the aegis or under the purview of this committee.

We will now hear from my friend who has been waiting here for 35 minutes.

TESTIMONY OF ROBERT J. LEVERING, PRESIDENT, DIRECT SELLING ASSOCIATION

Mr. LEVERING. Thank you, Mr. Chairman.

My name is Bob Levering. I am here from the Direct Selling Association. Our association represents companies which sell products primarily to consumers in their homes.

Our major members such as Avon and Amway and Fuller Brush are well known to everyone, but it is a fact that two-thirds of our 118 member companies are small businesses.

In addition, there is a sales force of over 4 million independent contractors which sell for all of these companies, and they are members of the small business community and proud of it.

They are, as a matter of fact, so small that they are largely uncounted, even by the Census Bureau and other committees. The SBIC does not have a record of these 4 million-plus independent contractors.

To give you a little background on our association: 80 percent of that sales force is women, 15 percent minorities, et cetera.

The issue I want to bring to the committee's attention this morning, and I am a little embarrassed because it is an issue that will not be addressed probably by this committee, but it is definitely a small business issue that you should be aware of. I will be brief. I have only one thing to ask of you. It is an issue that is of concern to many, many small businesses, not only our membership and the 4 million independent contractors, but the real estate industry, the casualty insurance people, the truckers, the loggers and all of their independent contracts.

Actually over 50 industries have an interindustry coalition working on this. I am speaking of a tax measure, the independent contractor tax status issue. At stake here is the independent contractor or the small business status of literally millions of Americans, and the issue started outside of Congress, of course.

The IRS, sensing and knowing that there is more money in social security payments when there is an employer-employee relationship, started challenging the independent contractor relationships in many industries.

The traditional test is the common law test and through revenue rulings and litigation, in the mid-seventies, they began changing what had been the established law in this area.

Congress was fairly quick to act, and there is presently a moratorium on this.

The Congress said no. Cut out the harassment. That has been twice extended and now will run through July 1982.

In the meanwhile, Congress has been looking to supplement the common law to find some better method of defining who is an independent contractor and who is not, one less subject to a different interpretation independent of the IRS.

There has been a fairly clear consensus on this, I am happy to say. It takes the form of a safe harbor test which is a statutory test. If you meet the four tests in the statute, you are an independent contractor. If you fail to meet them, you still fall back on the common law and take your chances.

This particular approach has bipartisan support in the Congress. Senator Dole on the Senate side has introduced a bill last year and again this year, S. 8. Congressman Gephardt has introduced a bill last year, and we expect soon a compromise bill coming again in

the House Ways and Means Committee, and we are very confident this year that this approach will be passed this year.

However, last year the IRS tacked on to this bill a 10-percent across-the-board withholding provision for gross income of independent contractors. I do not have to tell you really.

You can imagine the impact that this would have on the independent contractors themselves, and the companies who are attempting to offer income-earning opportunities to these Americans.

In our industry alone an independent economist, Robert R. Nathan, has estimated that it would cost our industry $500 million to make the switchover, and more importantly, it would probably eliminate 2,800,000 income-earning opportunities in direct selling alone; and other industries have come up with similar surveys.

The whole purpose behind the 10-percent withholding is an IRS conviction based on a hastily prepared study using in-house data that independent contractors do not comply with tax laws as much as people who have employees who have withholding.

Now the study has been fairly discredited by Nat and others and even using their data, Nathan has estimated that 90 percent of the taxes are collected, and so you know that when you weigh the amount of money that is going uncollected by the IRS, maybe against the burdens on the industry and the cost to America in terms of small business opportunities, this provision makes no sense. Fortunately, I think we have a consensus that it will not be attached this year.

The reason I am bringing it to your attention, first of all, in any case is it is a small business issue that you should be aware of. Second, the legislation may bog down again this year. We would like the opportunity to brief the minority and majority staff so that you are familiar with this issue and give it a push, if it needs a push.

In the unlikely event that the 10-percent withholding rears its ugly head again, we want you to know that this is a danger to the small business community, and we would ask your support in that, also.

I thank you for the opportunity to address the committee.

Mr. MITCHELL. Thank you.

Any questions or comments from the Members?

Thank you very much and thank you for being so patient.

I am beginning to watch the clock now. I will try to call on the people in order as they gave their names up here or stood in line back there.

I think Mr. Tomlinson is next.

TESTIMONY OF DAVID L. TOMLINSON, CHAIRMAN, NATIONAL SMALL BUSINESS UNITY COUNCIL

Mr. TOMLINSON. Thank you, Mr. Chairman.

Members of the committee and members of the staff, my name is David Tomlinson. I am from Salt Lake City. For the last 25 years I have been building up a business I call Ambel's. We distribute cabinet hardware in 11 Western States.

I have recently been elected chairman of the Small Business Unity Council. This is the council, as you know, that is the imple-

mentation group of the White House Conference on Small Business, and in the words of our former chairman, we are a nonpartisan, all-volunteer, elected body mandated by the delegates to the White House Conference on Small Business in accordance with Resolution 11 of the conference.

Our function is to insure that the recommendations and resolutions which represented over one-half million hours of development time are, in fact, implemented.

We are unique in our composition, representing every State and territory in the United States. Our leadership unit is fairly comprised by geographic, male, female, and minority representation and we are predominantly small business owner-operators ourselves.

Mr. Chairman, two of the basic premises that we confirmed at the White House conference were, first, that there does not exist in public policy a clear understanding of the difference between large and small business, their differing contributions and needs and the difficult impacts of Government policies, taxation and regulation upon them.

And second, that we must solve the problem ourselves by becoming politically active and working together with our small business and trade associations to articulate and define the solutions to you, our elected representatives.

For these reasons, I am very pleased to be here today to participate. I believe that we of the National Small Business Unity Council and our fellow business owner-operators represent an ingredient that has been missing in policy formation until the White House conference, and now we are trying to assume our rightful responsibility by having our input directly.

We fully sustain our small business and trade associations. We welcome their research and their experience and their articulation of our problems and our positions with the financial and other resources which we provide them for these purposes.

I have three things I would like to say. First, we fully support the White House conference and its recommendations and the principle of direct input. We are willing to make whatever efforts are necessary to participate. We recommend that the committee continue to view the recommendations of the White House conference as a mandate and as an agenda for the work that is needed.

Second, in line with some of the recommendations and proposals that have been discussed today, we would recommend that the committee look at all of the principles embodied in the Senate bill, S. 360, which does address many of the top concerns of the White House conference, capital formation, and other concerns.

The third thing I wanted to say today was with regard to the effect of the interest rates today.

You know it may not matter. We need to balance the budget. We all feel that. It really may not matter how you do that. If you want to, you could probably make a 10-percent surcharge on small business or on income, corporate and personal income, because most of the small businesses in this country are not going to have a profit this year, and so that is not going to have much effect on them. You can increase their taxes considerably, and they are not going to be paying many taxes this year because of the cost of capital.

There are some effects of this interest rate that are rather interesting. People tell me it is difficult to get capital for them. I find that to be not true.

I am solicited in my business at least once a week by a firm, by an organization that wants to lend me money, that wants to provide me capital to operate my business. I am solicited over the phone. Do you know who they are? They are the large lending institutional arms of the large businesses in this country. I could tell you their names. You would recognize them. They are the large corporations, multinational corporations of this country, all of whom have lending arms. The largest lender of capital is a nonbanking institution, which you all know.

They solicit us continuously, and there is capital available.

Why is this capital available? Because after the Federal Government gets through supplying its needs from the capital market, the needs of its deficits, then the large corporations sop up what capital is left at perhaps five points under prime—as has been indicated, over 60 percent of the loans that are being made are at five under prime, and then they reloan it to us at four points over prime.

That establishes a differential that means we are never going to be able to succeed or compete with them adequately. And then if they see that we can—as an emerging business, if we are successful under that type of a disparaging rate of capital, then they want to buy us.

How do the large corporations grow? They grow by acquiring our corporations, smaller businesses.

How do we grow? By creating jobs.

My own company has done something that United States Steel and General Motors and all the rest of the large ones have not done. I have hired 25 people in the last 2 years in my corporation. As I understand it, there are hundreds of thousands of people who are being laid off by the major corporations, by United States Steel, by the others.

I have done something else that they have not done. I pay about $100,000 in corporate and personal income taxes. How much are you going to have to give back to Ford Motors after they just posted their $1.5 billion loss? For the next 5 years, you will be giving money back to them.

So these are the contributions that we make, and this disparagement is a problem which we face, and you know the incredible thing about it is that the Government is not getting that money. This money that we used to pay in taxes, now we are paying in interest.

And what are they doing with it, the large corporations? They offset 61½ percent of their tax bill by offshore allowances, 150 tax credits they are able to take advantage of. So they offset this, and so they offset their tax bite; and so what is happening is a great concentration of power gradually taking place in the small businesses feeding the assets of this country are being fed to the larger corporations.

The Government is an unwilling participant, and the Government is not getting its fair share of the tax money and revenue that we generate because of that.

I would suggest that you might want to look into the false prime rates and the interest rates and the things that are taking place now.

I appreciate this opportunity. We would like to have the opportunity to continue, and we will continue as a national unity council to have input, have our direct input in.

We want to join with our trade associations and small business associations in that forum.

I thank you very kindly.

Mr. MITCHELL. Thank you. That is very provocative testimony. I have talked with staff a couple of weeks ago, fully aware of the fact that the interest rates are just clobbering small businesses. Frankly, we want to have some hearings on this, with the banks and other lending institutions being present.

We have got to come up with some way of offsetting this enormous interest rate for small business. I do not know what the answer is.

Mr. TOMLINSON. We think the proper tax structure is good for the long-term solution, and we will endure. A lot of us are not going to endure because with interest rates the way they are, we are simply not going to make it, but the rest of us will.

In the long term, if you will address these tax issues as you are and as you are concerned, I am convinced that the program will work and that they will be able to revitalize. I just know it will, because with the incentive that I see, I can see it in my firm, we can hire more people. We can start to go again. We fully endorse balancing the budget. We have got to get the Government out of the private capital market, and that has to be done. If it means cuts, we are willing to take the cuts.

You have heard testimony in the polls, and so on we are willing to take those cuts.

Two of the people of these 20 who I hired are CETA people. The participation of the Government, besides what administration costs there may be, will be 2,200 on one and 2,400 on another. If you are paying $25,000 a person, you ought to get rid of that program if it is costing you $25,000 a person, because it just is not doing it. That is one comment on that.

Seriously, we feel that the cuts need to be made, and we are willing to make the sacrifice. We feel that we represent a constituency in this country that is willing to make the sacrifices that are necessary, because we see that it is essential.

Gentlemen, you must address this concentration of economic power that is taking place.

We are not anti-large business. We all want to become large businesses ourselves. We want to do it because as soon as we reach a point, your State laws are sufficient, and the tax laws are structured against us, so we have to sell out to the large companies and take their stock in return and hope it does not go down.

Mr. MITCHELL. If I may—I am quite serious and sincere now—I would appreciate your thoughts later on about how we can do something with the lending institutions.

Mr. TOMLINSON. We have some thoughts on that.

Mr. MITCHELL. I would appreciate that.

Mr. TOMLINSON. There are certain things that need to be addressed, like the cost of mortgage money and so. We frankly are for—I will speak personally for myself as a small business person—I think tightening up consumer credit. I think we ought to go back to some of the basic principles we built this country on, and that is if we want to acquire some of these things we ought to save and get it.

One of the answers I think to Mr. Daub's question is they extended it from $200 to $400, the interest exemption. It ought to be $10,000. If you want people to save in this country, it ought to be a $5,000 or $10,000 exemption. Then you will get money in these institutions so there will be money to lend by the banks.

Now the banks participate in these other loans by the way. The banks are the ones who lead us to these other institutions and they blend their rates. They handle the first $200,000 or $300,000 of needs for corporations the size of mine and at a reasonable rate if that money is available, but if it is not and money is tight, they simply hand us on to the large business lending arms.

Mr. MITCHELL. I think Congressman Conte has a question.

Mr. CONTE. You partially answered my question when you said you were not anti-big business. It sounded from your presentation that you were anti-big business. I do not know where a lot of these small businesses would be if it were not for big business. They get the subcontracts.

Mr. TOMLINSON. Very definitely. I am glad you understand that. We are simply against the public policy which creates the imbalances that are created so that we cannot operate, and we are locked in; and you are seeing a concentration of economic power in those corporations. It is just not fair.

Mr. CONTE. Who is the large corporation that does all this lending then?

Mr. TOMLINSON. The largest is in commercial credit, commercial finance. Control Data is one. All of them—they sound like—you can go down the top 1,000. GE, I.T. & T., all of the large corporations in this country have loaning arms. And they are the ones—they are very helpful to us. We understand. And it is a good business. It is not bad if you can borrow at five under prime and loan it at four. It is not bad at all. I do not mean to be disrespectful, Mr. Conte.

Mr. CONTE. I understand.

Mr. TOMLINSON. I have been laboring for this for a number of years.

Mr. CONTE. I think you make a very good point.

Mr. MITCHELL. I can assure you we are going to have hearings on that issue because I have just gotten too many complaints about businesses being forced out, and again I say I want to have a hearing, because I do not know what the answer is. I think we have got to get it from all of the participants.

Mr. BEDELL. I think it is tremendous testimony you have just given. What type of business—you indicated it was furniture you manufacture.

Mr. TOMLINSON. No. We are distributors of cabinet hardware. We distribute hardware to cabinet makers throughout the West.

Mr. BEDELL. You indicated there was a Senate bill.

Mr. TOMLINSON. S. 360.

Mr. BEDELL. Does it address the progressivity in the corporate income structure?

Mr. TOMLINSON. Yes; and it helps. It is a significant help.

Mr. BEDELL. I understand there are more votes for that than anything else.

Mr. TOMLINSON. Yes; that and balancing the budget. Those were the two main ones.

Mr. ROEMER. Mr. Chairman, in the testimony, did the White House conference deal with its concentration of the financial lending power in the multinational corporations? Is that part of this report?

Mr. TOMLINSON. Yes. As a matter of fact, it is basic in the report, in the premise of the report. You see they are able to offset 61½ percent of their tax bill with these credits. We can offset about 6½ percent.

Mr. ROEMER. I understand that. I want to know if I could see it presented analytically in that report? Is it there? The discussion of this problem?

Mr. TOMLINSON. Yes. It is in the first four pages. I think it is a very good explanation of it. It is a significant problem for us. You see we pay an effective tax rate of about one-third of our income, where they are paying an effective tax rate of about 11 percent.

Again, the Government is not getting the money.

Mr. ROEMER. Let me join the prior member—I do not think you attacked large business at all. I just think you damned them with faint praise.

Mr. MITCHELL. Are there other comments?

We are scheduled to end this hearing by noon.

I will try to get to every name that is up here. In the event that time runs out on us, I will ask in advance that you reduce to writing a statement that you might want to make or comment or recommend and then get it in to us. We will try to get to everyone that we possibly can, but time is running out.

I will ask the various persons who are to speak, who want to speak, to be rather succinct and precise in your presentation. That might help some.

Mr. CONTE. Mr. Chairman, I would like to take this opportunity to compliment you for bringing these hearings about, in your new leadership role as chairman of this Small Business Committee. I think we are off on the right foot. I have been on the committee since it was formed. It is the first time I have ever seen these types of hearings. You are to be complimented.

Mr. MITCHELL. Thank you very much. I just hope that holds up throughout the year, sir.

TESTIMONY OF JUDY SCHUB, LEGISLATION DIRECTOR, NATIONAL FEDERATION OF BPW CLUBS, INC.

Ms. SCHUB. Mr. Chairman, my name is Judy Schub. I am legislation director for the National Federation of Business and Professional Women's Clubs, normally referred to as BPW. I, too, want to thank you for this opportunity to share our concerns with you.

The number of women in the work force has increased dramatically over the past 20 years so that women now constitute about 44 percent of the work force; but only 7.1 percent of businesses, small businesses in this country are owned by women. That is according to 1977 Census Bureau statistics.

There are two areas where women have the most problems. One is that they appear at least on the surface not to have the appropriate management or administrative experience to start their own businesses. That is the result of sex discrimination in the workplace, and two, the issue of financing.

You have heard a great deal about that this morning, how hard it is for small businesses to get credit. You can imagine what it is for women-owned businesses or women who wish to start businesses. We could go into all of the reasons. They are myriad.

One of the problems is that the Equal Opportunity Credit Act regulations do not apply to commercial credit transactions in most cases.

Also, again, lenders look for hands-on experience. Women tend to have lower job titles, et cetera, in the work force. So we are very concerned about this. We do see some areas that could be changed and some areas that are changing. We are also very concerned about regulation and tax policies. Overregulation is especially hard on women-owned businesses because they are very, very small businesses.

The tax policy in this country tends to discriminate against women in jointly owned businesses with their husbands. We have heard a lot about a State tax policy. It is a very serious problem for women who spend a good part of their lives working with their husbands, and then their husbands die and they lose the businesses to pay the tax bill.

The IRS Code has also some other discriminatory aspects in terms of jointly owned businesses.

We urge this committee to look at those things and its effect on small business and on women-owned businesses.

As I said, there are some changes which we support. In May 1979, an Executive order was signed to promote women's business enterprise. As a result of this Executive order, the Women's Business Enterprise Division was created within the Small Business Administration. This is a rather focused, not huge bureaucratic program, and we support it. It is aimed at helping women in the two areas they need help most, which are, one, access to management training, and financial access projects.

The access to management training will be through existing community resources. That includes the "Y" and the chamber and other such organizations, and also projects to help lenders see that women are good risks.

We agree with the transition team which recommended that this Women's Business Enterprise Division be funded for 2 years with an evaluation at the end of that 2 years to see if the program is being effective. We would hate to see this program get cut in budget cutting any more than any other program, because it is a new program, it is more vulnerable. We think it is very important that steps be taken to continue the program and to make it possi-

ble for many, many more women to become entrepreneurs. I think that is the American dream.

I think the numbers are very clear that women are excluded by practices of lending institutions, by existing sex discrimination in the work force; and we think these are very modest steps.

The SBA women's business enterprise program is a very, very modest program aimed at addressing some of these problems.

I will be glad to answer any questions if I can.

Mr. MITCHELL. Are there questions?

I met with Miss Bistrom, and we discussed this program that is now in effect. She shared her concerns with me that it might be halved in terms of the budget, that it might be cut in half. I would hope that that would not happen.

I assured her I would not support any cut in the program that has not really been in existence long enough to do the job and has not even been evaluated as yet. So at least you have my assurances there, and she has them also.

What feeble efforts I might have to what feeble power I might have to try to prevent such occurrence I do not know, but at least I am very cognizant of the program. I think it should be worked on.

Ms. SCHUB. We are not trying to protect ourselves from all budget cuts. I do not think that is possible. I do think it is important that because it is new it is not just cut out completely, that it is given some sort of fair chance to see if it is an effective program.

Mr. MITCHELL. Any other questions?

Mr. SMITH. I would be interested in hearing you elaborate on some of the instances or examples you might be able to give on how in husband and wife owned businesses there is some discrimination or some practices where the husband is more favored than the wife.

Ms. SCHUB. The inheritance and State taxes, we are back to that. The surviving spouse has to prove that they have contributed to the business in terms of a monetary contribution or that they have in some way inherited the business.

Services to the business are not given a monetary value. This is very serious for women because generally, in a jointly owned business, one, the woman survived the man; two, she is less likely to draw salary from the business. She is much more likely to work and to provide services to the business, but the man draws the salary in his name.

When it comes to the inheritance situation, if he should survive her, it is generally assumed to be his business. If she survives him, it is assumed not to be her business.

There is some IRS code discrimination in a jointly owned business. All of the income deductions of that jointly owned business are assumed to be the husband's, unless the wife can prove that she provides—I believe the words are, "all of the control of the business."

Well, jointly owned businesses are just that. But the man is assumed to have control of the business without proving it. The woman has to prove she has substantially all, I believe is the IRS language, of the control and management of the business before any of the income and functions are considered to be hers.

This has a very negative effect on women, if after being in a jointly owned business they wish to go out and start a new business, because again, they do not have the appropriate business credit record.

Mr. SMITH. I would comment that I think your point is very well taken. I would like to work with you and other members of the committee on trying to reform this.

Ms. SCHUB. We would be pleased to do so.

Mr. MITCHELL. I thank you very much.

The next name I have is Ivan Elmer.

TESTIMONY OF IVAN ELMER, DIRECTOR, CENTER FOR SMALL BUSINESS, U.S. CHAMBER OF COMMERCE

Mr. ELMER. Thank you, Mr. Chairman.

My name is Ivan Elmer. I am director of the Small Business Center of the U.S. Chamber of Commerce.

Last week we supplied to members of the committee a statement that had been presented to the Senate committee last week and because of its tentative nature and because of a lot of changes since then, I hope you will not be offended that we chose not to reproduce that same statement and put the House name on it in order to present it.

I will cover only major items and stay away from specifics today.

In January, the Small Business Center and our advisory group, the Council of Small Business, conducted a series of 10 regional meetings around the country as an anniversary followup to the White House conference. Some of the members of this committee participated in some of those meetings. We have a report that will be available this week on a survey that was taken during the conferences of what were the high priority legislative items on the minds of about 1,000 small business people who participated in those hearings.

I will furnish a copy of that tabulation to you later this week. Regrettably, it is not available today.

From the White House conference and from our more recent testing of small business philosophy, it appears that what our members are telling us is that we do need a basic change in philosophy from predicating future progress on what the Government can do for you to a philosophy of progress based upon what we can do on our own if the Government will create an environment, a tax environment, regulatory environment, spending environment, in which we can actually find it possible to do what small business has traditionally done.

The full statement that I have submitted to you touches on three broad areas that are not the purview of this committee obviously: Taxation, spending, regulation.

We touch in that statement on two areas that are very much the purview of this committee: a review of the Small Business Administration, which I know you already have on your docket and the subject of Government competition.

My colleague from NFIB mentioned this earlier, and we are working together to prepare information that we can present later on to this committee as to a course of action to assist the part of

the small business community that is being severely affected by Government competition.

I would call your attention to one event of last week that has to do with this committee's oversight of the regulatory area and that is that in the new Executive order on regulation, it is difficult for us to find a concept of regulatory flexibility.

Now, it may be because we have read it only quickly, hurriedly, but I would suggest that in the language of that new Executive order there is actually no attention to the idea of regulatory flexibility, and maybe we do not understand the terminology and that there is no problem, but this would certainly appear to be an area that the members of this committee would want to investigate.

I would say finally as I sat here this morning and listened to many of my colleagues who gave testimony earlier, we can see instance after instance where small business people are confronted with problems, and where the country is confronted with problems that have existed simply because small business cannot afford to do what it would like to do to serve the country; namely, provide jobs, give those new innovative ideas, provide the competitive edge in our private enterprise system, and generate the kind of viability that our economy has lacked for the last several years.

The proposals in our full statement, I think, will get at those in the overall, and I want you to know that we are prepared to work with you and the members of the staff. We will provide this additional information that I have alluded to earlier as soon as it is available. And we look forward to a great year in your committee, Mr. Chairman.

Mr. MITCHELL. Thank you very much. I know that there are questions and I would like to lead off with one.

Did the Chamber of Commerce endorse the President's proposal to eliminate the Bureau of Competition and FTC?

Mr. ELMER. The board of the chamber met on Thursday, the next morning after the President's speech, and they adopted a general support resolution for the President's program.

In other words, this was unequivocal support of what the President is attempting to do. We have policy positions in many of the details that are in the thick book that are contrary to what the President has proposed, but the board's feeling is that we must show a solidarity here, a willingness to consider what we may not prefer.

Mr. MITCHELL. Do you know specifically what the board's position is with regard to the Bureau of Competition and FTC?

Mr. ELMER. I do not know, Mr. Chairman. I am not sure whether they have a position. I am sure that it was not discussed at this most recent board meeting.

Mr. MITCHELL. Thank you.

Mr. ROEMER. To follow on the chairman's question a little bit, more specifically for my interest, we heard testimony earlier from the NFIB. They feel like Billy Martin does, strongly both ways in regard to Kemp-Roth.

What position does your organization take on the question that if inflation is the No. 1 danger to small businesses across the land, is that inflation fueled by the size of the deficit or the size of Federal expenditures?

Mr. ELMER. By the size of Federal expenditures, unequivocally.

Mr. ROEMER. So you support Kemp-Roth? You are not worried about the deficit?

Mr. ELMER. You gave me two very narrow options. Please do not try to generalize from that things I did not say.

Mr. ROEMER. Let us follow up on it then. The criticism I have heard of Kemp-Roth, one of the main things is that it offsets all of the budget cuts by a like reduction in receipts at the Federal level. Therefore, the deficit will remain approximately the same. You do not share that concern of Kemp-Roth then?

Mr. ELMER. No; please do not show that I do not share your concern. The chairman has had reservations about Kemp-Roth. We support a substantial cut in the corporate and personal, individual income tax rate. Whether that is the ideal forum of such a cut, we are not prepared to say. We have not endorsed the Kemp-Roth proposal per se.

Mr. MITCHELL. Mr. Bedell?

Mr. BEDELL. Some time ago, I had a serious concern over the fact that the board of directors of the chamber was almost all great big business. Has that changed?

Mr. ELMER. Yes.

Mr. BEDELL. Would you be willing to send the committee or me a copy of the board of directors of the chamber, and their positions, and the companies they are with?

Mr. ELMER. I would be delighted to, Mr. Bedell.

Mr. MITCHELL. Any other questions?

Mr. IRELAND. Thank you for your comments.

I am enthusiastic about certainly your interest and the other interest that has been shown concerning the oversight of regulatory flexibility, and so we are on some communication ground.

We have already begun to talk to the Administration about what is in that Executive order, but I would reassure you and the others concerned with it right away that in the Executive order while not referring directly to regulatory flexibility, encompasses a 6 month agenda, detailed impact statements and the review of all present rules, which are already the backbone of regulatory flexibility.

So, I think that the oversight is certainly necessary, but the enthusiasm on the part of the administration is there. I think they should be complimented with you and others working on it, and us as well. We can move on the oversight and see that it is done. Certainly we all appreciate your assistance along that line.

Mr. ELMER. The specific that we did not find was the two tier——

Mr. IRELAND. But it goes into the detailed report and moving in the right direction.

Mr. ELMER. It clearly could be intended by broader language, which would sort of get us away from some of the underbrush on the administration regulation.

Mr. IRELAND. You have begun discussions along that line.

Thank you.

Mr. MITCHELL. Mr. Bedell?

Mr. BEDELL. Some time ago your organization was in opposition to greater progressivity in our corporate income tax structure. My

understanding is that was the item that had more votes than any other at the White House Conference on Small Business.

Do you know if you have reevaluated your position on that or changed your position or what your position is in regard to increased progressivity in the corporate income tax?

Mr. ELMER. Mr. Bedell, the 10-point small business tax program adopted by our board last November begins, "Reduce corporate tax rates on the first $500,000 of taxable income." We support and in fact, encourage that graduation go up so that the maximum tax rate does not apply until the point of $500,000 of net income.

Mr. BEDELL. Thank you.

Mr. MITCHELL. Any other comments or questions.

Thank you very much.

TESTIMONY OF MILTON CAREY, PRESIDENT, ASSOCIATED MINORITY CONTRACTORS OF AMERICA

Mr. CAREY. Thank you, Mr. Chairman.

Mr. Chairman, I am Milton Carey, president of the Associated Minority Contractors of America. I appreciate this opportunity to speak before this august body.

I feel compelled to make some comments with regard to the profound problems that we are having in the minority business community trying to make the free enterprise system work within the minority communities as it does in the majority communities.

I would like to refresh the committee's memory to the fact that in the Nation today there are some 380,000 minority firms struggling to make this dream, free enterprise dream, come true, but incidentally, these 382,000 minority firms, and this includes all minorities, represents a little less than 3 percent of the total number of domestic business enterprises that are operating in the United States.

I would also like to point out that in the latest figures that I have seen it shows that our gross business receipts were somewhere on the order of $2.5 trillion to $3 trillion.

My best information shows that 11 minority businesses are taking in some $16 billion, which means that the total take for the minority business enterprise community is far less than 1 percent. In fact, it is somewhere in the neighborhood of seven-tenths of 1 percent.

Now, the activity, and the end results of the minority business in the country is essentially the same as any small business, and that is that it creates jobs. I have heard someone comment earlier that small businesses in the Nation create some two-thirds of the nongovernmental jobs of the Nation.

All of our businesses—that is, virtually all of our businesses are small businesses. We did a recent survey, and we found that those small businesses also employ a work force that is very much similar to the ownership of the business. In fact, roughly 5 percent of the work force in a minority firm is Caucasian. Approximately 15 percent is female, which represents the racial composition of the owner, and the remaining percentage is male, representing the composition of the owner.

So with all of the folderol that we are having and the worry and bother about social programs, it seems to me, that we have lying right in front of us a perfect solution to the welfare and the social problems in the minority community by simply taking those measures that make the free enterprise system work within our community.

I do not think though it is possible for us to do this without some governmental intervention of some form. And, therefore, we feel that it is very imperative that programs such as the SBA 8–A program be continued and even expanded. I stumbled across a set of figures not too long ago that showed that only 2,000 of the 382,000 firms in the country are qualified and certified under the 8–A set-aside program.

I represent the construction industry, and only 500 of our 43,000 minority construction contractors in the country are qualified and certified under the program.

It is very difficult, in my view, to call that an effective program, especially in view of the needs. If the minority business enterprise world were anywhere near economic parity, our annual gross receipts would be something on the order of $400 to $500 billion.

As I testified earlier, the latest figures that I show indicate that we are somewhere in the range of $16 billion.

Years ago, when the Congress found in its wisdom to create the Small Business Administration, I think one of the guiding thoughts there was, and guiding realizations, was that small businesses in this Nation are at a competitive disadvantage.

Some of the figures that I have quoted to you here indicate that the minority business community is not only at a competitive disadvantage, but that we are at a competitive disadvantage within a competitively disadvantaged group.

We publish a newspaper called the AMC Monitor, Mr. Chairman. I wrote an open letter to you and also to Senator Schweiker asking you all to consider a proposition that would address the seriousness of this problem that we face as minority entrepreneurs and find a way to create a subset of the SBA set-aside program which has been in existence for a number of years, to create a subset within that set-aside program, so that more of our minority businesses can operate in that system and not be encumbered by the strenuous certification system that exists in the 8–A program.

I believe—and I call it a sheltered market, if you will—I believe if we can shelter a certain portion of the market, not do away with the 8–A program because I think it is needed, but shelter a certain portion of the market for competitive interaction between minority entrepreneurs, I think we will find ourselves proceeding at a much faster rate in developing the minority business enterprise within the minority community so that our businesses, too, can solve some of the socioeconomic problems that majority businesses solve within the majority community.

That completes my testimony.

Mr. MITCHELL. Thank you very much.

I did receive a copy of your paper with the open letter, and I have read it. I am perfectly willing to accept some more.

Are there questions or comments?

Mr. Bedell?

Mr. BEDELL. I do not want to prolong things, but we do have a problem in my area that sometimes I think overreaction causes difficulty, because on Government relations—I am from northwest Iowa—there are limited minority enterprises in that area. An engineering firm which gets a Government contract is required—it is either 2 or 5 percent, a small percent—has to go to minority enterprises so if they get a contract for $50,000, they have to hunt around and go a long ways to try to find somebody to do $1,000 worth of work for them, which most everybody in that area thinks is pretty ludicrous.

I guess the concern I have is that, recognizing your problems and I think it is a legitimate problem that we should all be concerned with, I would hope you would recognize the fact that there are some areas where I think some of the Federal regulations are almost giving this effort a bad name.

Mr. MITCHELL. Who requires the 2 to 3 percent?

Mr. BEDELL. The Federal Government on Government contracts.

Mr. CAREY. Is that the pipeline project you are referring to?

Mr. BEDELL. All I know, they have come to me, and if they do engineering work on a Government project, like they do a lot of work for water projects, this sort of thing, where the requirement is, a lot of small engineering contracts, that they have to put a certain percentage to minority enterprises. It gives the program a bad name, is my point, unless we can get flexibility where it is really legitimate. I understand you do not want it in other areas.

Mr. BEREUTER. Will the gentleman yield?

Mr. BEDELL. I yield to the gentleman.

Mr. BEREUTER. We have precisely the same problem, very severe problems in Mr. Daub's district in Oklahoma. It may exactly relate to what you are saying.

The kind of comments now coming to us are for repeal of the entire effort because of particular problems that this is being presented where there are no minority enterprises that are in the market or willing to come in, so it is all concentrated on a particular enterprise there.

Mr. BEDELL. In fact, I am told there are even operations that pretend to be minority enterprises in order to fill this requirement where they are not really minority enterprises, and some minorities give them their name in order to fill it in.

Mr. MITCHELL. You wanted to respond?

Mr. CAREY. Yes. I would like to make a couple of comments.

You know it is so very unfortunate that we find ourselves at this juncture, because several years ago the whole minority business enterprise development program was propelled itself on the concept of good will of the entrepreneur.

We simply found that it did not work and we had just any number of people, especially our construction people going out of business, just bidding jobs and being manipulated around.

So, it became necessary for us to insist that somehow or other that we create a marketplace that was the reliable marketplace for them to come to.

Our position as an association has been though that these minority business enterprise efforts should be demographically sensitive, so certainly if you are talking about a Government project in

North Dakota, in our view, that should recognize the fact that there is a certain minority population there.

But further, I would like to point out to the chairman and to the board that we got in contact with Dodge Marketing Service, and we bought a mailing list. We have got a computer in our association. We bought a mailing list from Dodge Marketing Service of the top 9,000 majority construction firms in the country, and these firms are doing over $1 million worth of annual business volume. We mailed that newspaper, the AMC Monitor free, or gratis, to those 9,000 majority business firms all over the country, so that they can never again say in honesty that they do not know how to locate minority business enterprises because we advertise minority firms in that paper, and we encourage the majority firms to contact our association for that kind of assistance.

Mr. MITCHELL. Thank you.

Mr. ROEMER. Did I hear you correctly, sir, and I appreciate your statement and am very concerned about it. I think you are on the right track. Did you say that the 8–A set-aside program should be kept, but did you also say it is not working?

Mr. CAREY. I said it should be kept and it should be expanded.

I made the observation that only 2,000 out of the 382,000 minority firms are certified under that program at present and that of those 2,000, only 500 are minority construction firms.

We have in our industry 43,000 minority construction firms. I would think that if you are going to call that a program, if you are going to call something a program in a multitrillion dollar economy, that it would be difficult to see the impact—that is the realistic impact—that the program has been so far.

So I am saying that it should be expanded. I showed you also that we had a need for $500 billion worth of income in our community, and I believe the 8–A program is only generating something on the order of $1.5 billion right now for the minority business community.

Mr. MITCHELL. Mr. Smith?

Mr. SMITH. I would be interested in knowing how your association feels about one piece of legislation, the Enterprise Zones Act, and also how you view the Davis-Bacon Act.

Mr. CAREY. As far as the Enterprise Zones Act, we are very favorably disposed toward that. However, we have not met in our board on this subject so I will reflect a personal view. I have some reservations that our communities are going to be exposed to business enterprise activities that will continue to extract the available financial resources in the minority community, and in that regard let me elaborate just a little bit.

There are some 37 million minorities in the country, and I believe that our per capita income is somewhere in the neighborhood of two-thirds of the per capita income for majorities.

If that is so, then we are taking in something like just under $200 billion in the minority community.

But minority businesses are only realizing $16 billion of that. Now, what that really says to me is that we have got an economic condition that is existing in the country right now that says that some 94 percent of our overall income is being extracted out of our communities in a balance-of-trade deficit type of situation. So that

if we have got the enterprise zones systems, it should be put in such a way that there is participation of community residents in that.

Mr. SMITH. One of the criterias of the act would be at least 50 percent would have to be from the impact area.

Mr. CAREY. Yes. I would say that is a good idea.

Mr. SMITH. How about Davis-Bacon?

Mr. CAREY. We have not taken a position on the Davis-Bacon as an organization.

Mr. SMITH. Thank you very much.

Mr. MITCHELL. Any other questions?

Mr. IRELAND. Sir, I have a question: I am sorting out these figures. I think it is 382,000 minority enterprises, all theoretically eligible for 8-A, but only 2,000 certified.

Now, I wonder have we got a you-can-lead-them-to-water-but-you-cannot-make-them-drink program here? What is keeping them from qualifying? What are some of the things? There is nobody standing in the door.

The good chairman here and some of the rest of us do all kinds of things to encourage it. I just read a report out of my Foreign Affairs Committee of the aid program where they have an affirmative program there with three or four fairly high-priced agency members. I was appalled that they were proud they had written only 500 letters out there. Those programs were out there, but nobody is responding to them. Now, what is keeping them home?

Mr. CAREY. We have not done any studies on the 8-A program, I mean in that particular detail.

But last night, I came back from a regional meeting, three regional meetings, one in New York City, one in Boston and one in Detroit over the weekend. That is why my voice is kind of torn up here. But in every case, in every case and with every group of contractors I talked to, they tell me that they are starting to put the paperwork in and trying to get these programs through.

I also have the feeling that there are some administrative limitations that are contained within the Small Business Administration that do not permit the administration to process as they should.

Mr. MITCHELL. If I may interrupt just a moment, we plan to have oversight hearings of course on SBA, but it is very, very obvious that there is a waiting list.

First, they are wanting to get certification, but there is something wrong within the Small Business Administration that causes an inordinate delay in certification. I certainly want to address that when we have the hearings, because I know people who have waited for more than 1 year to get certification, and they have not; and yet it is SBA policy to resolve certification one way or another within 90 days, and they just do not do it.

Mr. CAREY. Mr. Ireland, I would like to offer, and I do not have any facts on this, but I would like to offer the suggestion that perhaps the process has been too centralized. It is my impression that it might well be that the applications have to go through too many chains.

Mr. IRELAND. Do you have any feeling of how many of those 382,000 may have made an application?

Mr. CAREY. No, sir, I do not.

Mr. IRELAND. Because it is up to them to make the application.

Mr. CAREY. Yes, sir.

Mr. IRELAND. It is not a chicken-and-an-egg thing.

Mr. CAREY. I will assure you that within the minority community that the 8–A program is a desirable program. Our business people want to be qualified in the program. They are applying for it, and as the chairman said, I am sure that there is an extremely long waiting list.

Mr. MITCHELL. Just in comment to you, Mr. Bedell, and to all the members of the committee, one of the things that I have heard most frequently is the so-called front company operation. Certainly I will be proposing some legislation. There are safeguards right now, but apparently they are not tough enough, and at some point I am going to submit an amendment which would call for a $50,000 fine or 10 years in prison, or both, in the case of front companies. If we have the problem, let us handle it.

Mr. Mullenholz, thank you for being so patient.

TESTIMONY OF JOHN MULLENHOLZ, LEGISLATIVE DIRECTOR, NATIONAL FARM AND POWER EQUIPMENT DEALERS ASSOCIATION

Mr. MULLENHOLZ. Thank you, Mr. Chairman, for giving me the opportunity to talk. I am John Mullenholz, and I am the legislative director for the National Farm and Power Equipment Dealers Administration. It is the group that sells their services for farm and power machinery equipment throughout the United States. We have some 12,000 members.

I am new in the position, less than 1 month old, so forgive me if I talk about issues that are irrelevant to your committee or to the small business community. Forgive me also if I am unable to answer some questions. I promise I will do everything in the future to educate myself as thoroughly as possible.

I would like to address just one subject and that is inventories, but I have two aspects I would like to talk about. One I am sure you are familiar with, and that is the so-called Thor power issue. This is an action by the Internal Revenue Service attempting to change the manner in which small businesses, in particular the dealers, write down their inventories at the end of the year. This is a matter of great concern to us.

We have concern about the fact that the Internal Revenue Service has issued a ruling which creates to some extent unrealized income on behalf of many of these people who have this inventory problem by forcing them to write it back up if they have been doing it in another fashion.

The relief that we seek, and to the extent that your committee can communicate with the Ways and Means Committee, would be an immediate moratorium on the imposition of that ruling by the Internal Revenue Service, which would be somewhat similar to the independent contractor fringe benefit moratorium that has been proposed, and then a very simple method of allowing businesses to write down their inventory method which has some relationship to the facts but which would not create the morass that many of these businesses find themselves in at the present time.

It is a very, very serious problem.

I would like the opportunity to submit written comments to you.

Mr. MITCHELL. I was going to ask you if you would and that all of the members of the committee get a copy of that.

Mr. MULLENHOLZ. Thank you, I will do that.

The second aspect of the inventory problem is one that Mr. Tomlinson has touched on. I am very happy you intend to hold hearings on it. That is the inventory financing at interest rates which the dealers are experiencing in trying to hold their implements on their lots so that the farmers can purchase them. It is outrageous. It is impossible for them to keep an inventory, and to the extent that one subscribes to the theory that high interest rates will bring inflation down, it is counterproductive to this situation because you have dealers actually going out of business because they are unable to maintain inventories. If they can somehow survive, they do it by cutting down on inventories.

You gentlemen who have farmers in your districts know these farmers get these implements at particular times of the year. If they can't get them, the result is going to be a decrease in production. If they are going to have to be back ordered and have harvesttime come without a piece of essential equipment, or an essential part of that equipment, production is going to be reduced.

Agricultural production reduced is naturally inflationary.

So there are two aspects: by eliminating dealers who are presently servicing the farmers, and by cutting down inventories, this high interest rate that is being sustained is truly counterproductive and creating inflation. To the extent that you are able to hold hearings on it—and you can do that—and in some fashion provide relief for these dealers, it would be extremely helpful, not only to them but to the agriculture community in general. Those are the two points.

I thank you for giving me time. If there are any questions, I would answer them, but I would prefer to submit written testimony.

Mr. MITCHELL. I am certain there will be questions. Quite frankly, I am soliciting your thinking. I really don't know how to approach this business of interest rates and the small business problem, so when those hearings are announced, I would hope that you might be able to participate.

Mr. MULLENHOLZ. We certainly will, and we appreciate the invitation. To the extent the Federal Government is participating in increasing these rates, I think some thought has to be given to applying them in a fashion which will, if they are meant to reduce inflation, have that effect, but in other areas where they are in fact inflationary, some method of application has to be employed.

Mr. MITCHELL. Are there any questions? Are there any comments?

Thank you very much.

Mr. Thomas Wenning.

TESTIMONY OF THOMAS WENNING, COUNSEL, NATIONAL ASSOCIATION OF RETAIL GROCERS OF THE UNITED STATES, INC.

Mr. WENNING. Thank you, Mr. Chairman. I am counsel to the National Association of Retail Grocers of the United States, com-

monly referred to as NARGUS. NARGUS represents approximately 40,000 independent locally owned and operated retail food stores. Many of them are family owned and operated.

The concern that we have has been focused primarily on regulatory matters. We have been working with the Small Business Committee here on the House side, with Mr. Nowak, to develop a system where retail grocers could make effective use of the last-in-first-out inventory method. We have run into a major stumbling block with the Internal Revenue Service where small retailers are not able to develop their own index.

The Internal Revenue Service has said you cannot use the Consumer Price Index to adjust the inventory values of your food products that you sell in retail food stores. Therefore, that leaves the independent retail grocer having to incur a substantial expense of developing his own inventory valuing of all of his products, developing pools and a whole range of complex methods.

The largest businesses with accountants and all kinds of firms have the opportunity to develop their index for their own individual companies, but the small retailer cannot make use of the life-of-the-inventory method. So we have been working with your committee in that area.

Mr. CONTE. Excuse me a minute. Can you give us one example of how that inventory works? Take a tomato can.

Mr. WENNING. All right. I can give you an example of how in the retail food industry we would expect it to work right now on the first-in-first-out method to take your inventory. Of course, in the grocery food industry there are normally three rings on a cash register—one for meat, one for groceries, and one for produce. You would try to evaluate your inventory on that level.

What the IRS is saying is that you cannot follow your normal inventory, your normal rings on the cash register; you have to have larger pools. You have to have something for medical products; you have to have something for Pampers, the paper products; you have to have something to break down your groceries, so you can no longer do that. So in the retail food industry on a retail method you don't keep your inventory by specific products. The recordkeeping is not there. It is by the rings on the cash register, so you ring groceries; you don't ring Pampers unless you have a standard system.

Mr. MITCHELL. What is their rationale for doing this, if there is a rationale?

Mr. WENNING. The rationale is that they are saying they don't accept the industry's saying that this is not the normal way that the retail method is done on the food industry basis. They say that you sell in your food stores anywhere from 8,000 to 10,000 items; therefore, you ought to be able to keep track of those products.

In other areas, take a gasoline station or something like that, they may have a more specific product delineation, whereas in a retail food store the history behind it has been that they don't use that classification; they use a retail method of accounting rather than a specific cost.

Mr. MITCHELL. You could end up with a thousand keys then; couldn't you?

Mr. WENNING. Right. It really becomes quite difficult to follow. We have been working, attempting to work with the IRS to get this changed over.

They recently came out with a proposed rule which would say that a taxpayer could use 80 percent of the CPI. That places the small retailer in this disadvantage. If you are large enough to have your own accounting system, you can have an accountant come in and construct an index for you. You can get 100 percent of your adjustment. But if you are a small taxpayer, you can only get 80 percent, so that the small taxpayer is not going to get the benefit of the adjustment, and we feel that there should be some action taken along this line.

We have been working with Congressman Nowak to develop some legislation in this area. We will also be working with the Ways and Means Committee.

To show you another example of how we get into these regulatory problems, the IRS—again I have three examples that I am leading up to; this is past history, but I want to lead up to what you can see coming down the road.

The last Congress passed an energy investment tax credit for industrial and commercial users. The assumption was made that retailing would be a commercial user. A lot of retail food stores invested in highly sophisticated energy resource recovery systems, where they take the refrigeration heat that comes off of the refrigeration equipment, recycle it through their store, and then heat their building with it. It is very energy efficient. Most of the new markets that are built today, over 90 percent of them, are being built with this type of equipment.

However, the IRS has said that the statute says industrial and commercial process; therefore, if you are not processing food in that establishment, you don't get the energy investment tax credit for it. You would have to be able to establish that you are actually processing something in that store, and general retailing is not considered a commercial process in their current final regulations that have come out. So that is the second aspect.

The third aspect you asked about: The President's program under the 10–5–3 proposal. On a simple reading of the 10–5–3 proposal, you would make the assumption that on building depreciation you would get a benefit for the 10-year depreciation. However, in the retail food industry, again there is a lot of development in supermarkets. Therefore, a lot of food retailers enter into long-term leases of maybe 20 or 25 years, or whatever.

Under the President's program, if you read it carefully—and it is sketchy—it says "owners of buildings." Therefore, if you are leasing a building, you may come under a 15-year lease.

Mr. CONTE. A 15-year write-off.

Mr. WENNING. A 15-year write-off—I am sorry—which is 50-percent longer than what other taxpayers are getting, and there may be that discrimination that would be occurring in that type of system. So that these are just three examples in regulatory issues where just specifically in taxes we find small independent retailers are being somewhat discriminated against and not being able to get what we feel the Congress fully intended for businesses to take ad-

vantage of. I will stop there and let other people address the committee.

Mr. MITCHELL. Are there any questions? I will not ask any because my blood pressure went up a little bit. I find it is bad to raise a question when my blood pressure is up.

Mr. BEDELL. First of all, I have some advice. If you are attempting to work things out with the IRS, I submit you are wasting your time.

The second suggestion I would have would be that apparently you have already contacted Mr. Nowak. It would be my recommendation that the staff of Mr. Nowak, or the full committee staff, get a letter to IRS signed by the chairman of the committee as well as Mr. Nowak, if they are agreeable to do so, in regard to your problem. I think they are a lot more likely to take a little bit of concern over a letter from the chairman of our committee than they are from your organization, and we may have some chance of getting some of these things that would seem to be so obviously anti small business corrected.

Mr. MITCHELL. Surely.

Mr. STATON. One of the things we can do in that letter is point out doubtless meaning that something in commercial selling is a tangible item. That is what Congress was doing.

Mr. BEDELL. I further submit if you want signatures of members of the committee, you could get a lot of signatures as well.

Mr. MITCHELL. I think that would truly be a bipartisan effort on the part of this committee.

Mr. STATON. There is one final question I have. Are you able to take advantage of the bar coding techniques presently used by many of the larger retail grocery establishments?

Mr. WENNING. Some of the smaller independents are not able to justify the investment at this time. However, we represent family owned independents that run and operate anything from a convenience store, a box store, a warehouse store, to a major supermarket. Some of the larger independents have been able to implement that on a store basis, not necessarily on a chainwide store. Some of the members have been implementing it and testing it out; yes, sir.

Mr. STATON. Are there any plans for your organization or others like you to invest in cooperative data processing ventures which would make this bar coding technique available for the capture of inventories such as you referred to earlier?

Mr. WENNING. It might be possible, but of the broad range for the 200,000 establishments out there of retail food stores, only approximately 30,000 of them are what are classified as supermarkets, and right now I think for the bar coding, to put it in some kind of perspective, the use of the UPC in the scannable register I think would be in the area of 5,000 or 6,000. I am not sure. It may even be 2,500.

But to put it in some type of perspective over the whole range of establishments now using a scannable cash register, it is probably less than 10 percent of the retail food store establishments that are out there. So you are talking about a small minority.

Mr. MITCHELL. Are there any others?

Thank you very much.

I think it is appropriate at this juncture for me to speak generally to let you know how we plan to handle the results of getting together this morning. It was not a formal hearing. As soon as the report is finished, then we will go through and assign to each one of the subcommittees the specific recommendations that have been made. That is the essence of where we want to go. I am certain that the subcommittee chairmen are already on top of some of these issues, but your problems as you brought them up will be analyzed and will be assigned to various subcommittees for appropriate action or appropriate followthrough or appropriate evaluation.

We have about 15 minutes left. Again, I want to apologize that I will not be able to hear everyone today, but I am very, very sincere when I say I would appreciate it, and I am certain all members of the committee would appreciate it, if you would reduce to writing what you might have wanted to say to us in terms of recommendations, observations, and so forth. If you will send that directly to me, I will take the responsibility of seeing that it is shared with all of the members of the committee.

Again, it is an appropriate time to thank you for taking your time. I have found this very, very enlightening. I have not agreed with everything that has been said, but certainly it has been an enlightening experience. You have served us well and the small business community well by coming here and setting forth your recommendations and observations.

I guess we can get in one more witness—I hope we can—and that would be Mr. Walter Kiplinger.

Mr. Kiplinger, thank you for being so patient and for waiting. I have nine other people who wanted to make a statement, I will ask those nine people, if you will, to reduce your statements to writing and get them to us. I hate to have to do this to you, but we have time constraints.

TESTIMONY OF WALTER KIPLINGER, CAST METALS FEDERATION

Mr. KIPLINGER. Thank you, Mr. Chairman. My name is Walter Kiplinger. I represent the Cast Metals Federation. Of the approximately 4,000 federation members in America, 80 percent of them employ less than 100 persons. There are just three points I wish to make. As far as the 10–5–3 proposal goes, we completely support it. We would support it to the exclusion of any other tax cut proposal. We would not agree with past statements made on OSHA.

We particularly call the full committee's, and the Energy, Environment, and Safety Issues Affecting Small Business Subcommittee's, attention to a recommendation that OSHA has never detected the hazardous areas in the workplace. We think this can be remedied by revising and adding language to section 6(B)(7) of the OSHA Act and also section 8(A)(3). We have the language.

Under the environment, the question came up about enterprise zones a few moments ago. We see the prevention of a significant deterioration phase under nonattainment as on a collision with any attempts to modernize or expand a foundry, and if you modernize or expand a foundry, you are going to add to the work force. Under the present law, offsets are necessary. Foundries have less than 90

percent emissions. They have cleaned up the act considerably, but under the PSD provision, an offset is required for expansion or modernization in an urban area, and we think that part of the act could be revised, leading to more employment, and that particular section of the act is section 160 through 166 of the Clean Air Act.

I have a recently published position paper which I will send all of you this week. Thank you. Are there any questions?

Mr. MITCHELL. Are there any questions? There are no questions. Thank you very much. We will look forward to receiving your position paper.

It is now 10 of 12. Would you go along with me in ending this hearing as of now? We have been going solidly for a long period of time, and the other members have responsibilities. I do thank you very much. It has been helpful, and if you think this is helpful, we might want to do it again in another quarter or so. Thank you very much.

[Whereupon, at 11:50 a.m., the committee adjourned, to reconvene subject to call of the Chair.]

TRADE ASSOCIATION MEETINGS

WEDNESDAY, SEPTEMBER 16, 1981

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to notice, at 8:45 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. On behalf of the House Small Business Committee, I want to welcome all of you to the second meeting and thank you for taking time from your businesses and your busy schedules to be with us today.

Basically the format we intend to follow is that I and the other five subcommittee chairmen will give a brief overview of what has transpired since our February meeting. Then we will recognize those who wish to make oral statements and we will also, of course, receive any written statements for inclusion in the hearing record.

A lot has transpired over the last 6 months. As you know, very major spending cuts were made by the budget reconciliation process which culminated in the enactment of Public Law 97-35, that is the Omnibus Budget Reconciliation Act of 1981. During the course of the hearings in the full committee I sought constantly to indicate that I thought the cuts were much too deep. Some cuts were required, but I think we went far beyond even the request of the administration in imposing cuts. Nevertheless, these cuts were approved by the majority of the members of the committee.

The House Small Business Committee was required to report legislation including savings of approximately $1.5 billion over the next 3 years. This has been done, and I'm not happy with it but it has been accomplished. The result is a reduction in Small Business Administration financial assistance of between one-fourth and one-half of the 1981 levels. In addition, we included substantive amendments in the reconciliation bill such as—and I'll cite one or two of them—major structural changes in the disaster assistance program, that's primarily increasing the interest rates; increasing the direct loan interest rates for all direct loan programs except the handicapped. For direct loans the interest rate will be around 15.3, as I recall it. Some changes, there were some statutory provisions on the percentage of guarantees on loans made by financial institutions and guaranteed by the Small Business Administration; also statutory provisions for the use of Small Business Administration

loans for refinancings; and there were also changes in the extension of the maximum term on maturity of SBA loans.

These changes are fully set forth in an explanation of title XIX of this public law. You have a copy in your kit of the explanation and the text of the small business portion. That's in that packet of information which you have.

As you probably have read in the paper, the administration will soon propose additional reductions for the upcoming fiscal year, fiscal 1982, and we fully expect that the Small Business Administration may be included within those affected. I would hope not, and I certainly intend to resist further cuts in this program because of the enormous size of the cuts that were made under the reconciliation process.

In our first meeting this year I indicated that I felt the committee would have to go out more to the small business community, and would have to have field hearings. We have done this. In addition to these meetings in Washington we have had field hearings in Chicago. We had field hearings in Los Angeles, field hearings in Phoenix, Ariz., and our last hearing for this year will be in Atlanta. All other things being equal I hope next year we will have four more field hearings in different cities. I think we must continue to go out in that fashion.

Let me give you a bit of information on the subcommittee which I have the honor to chair. My subcommittee is also continuing to evaluate and improve the operation of the SBA 8(a) program which assists the development of minority small business. We have held hearings on it and we will hold additional hearings next week on legislation to extend the pilot program under which the Small Business Administration is given additional authority to select Federal contracts for inclusion within the program.

Also next week my subcommittee will commence hearings on the impact on small business and minority small businesses of proposals to preempt State and local governments from regulating cable TV franchises. I have the impression that up to this point there has been very small, minimal involvement of small businesses in this whole cable industry which is mushrooming and I certainly want to start digging into that.

There have been new appointments made. As you know the new Administrator for the Small Business Administration is Mr. Michael Cardenas, and the new Chief Counsel for Advocacy is Frank Swain. The Small Business Administration has been somewhat slow in appointing people, but now they appear to be moving at a better clip. For example, this month Mr. Cardenas has appointed 3 of his 10 Regional Administrators and a new General Counsel for the agency.

The administration has proposed a number of changes within the Agency, and I don't think all of these proposed changes will be beneficial to the small business community and I'm not the only one who thinks that way. For example, the administration proposed cuts in the 1981 SBA budget. Those cuts were rejected by the Congress. The SBA proposed a reduction of the maximum guarantee on SBA loans to 70 percent across the board. That was also rejected by the Congress. It proposed a moratorium on the licensing of small business investment companies. This was imposed by the

Small Business Administration; however, at the urging of the Congress that moratorium has been lifted. A new proposal has surfaced to reduce the maximum interest rate on the SBA guaranteed loans to the Wall Street prime. My reaction is I think that I, as chairman, would want to resist that. I haven't dug deeply into it enough.

Another proposal has surfaced regarding nonbank lenders. According to the information published in the Federal Register, SBA is now considering refusing to license any new nonbank applicants.

These are some of the highlights that I want to report to you as of this time, and now I will recognize each of the subcommittee chairmen who are present, and I would assume that each subcommittee chairman will give the ranking minority member or a minority member an opportunity to speak after he makes his presentation.

Congressman LaFalce is not here so I will call on—he just walked in? This, ladies and gentlemen, is Congressman LaFalce. We were just about to call you. Do you want to take a minute, John, and we can go with someone else or do you want to get started right now?

Mr. LAFALCE. I'll take more than a minute and go now.

Mr. MITCHELL. OK. Fine.

Congressman LaFalce chairs the Subcommittee on General Oversight.

OPENING STATEMENT OF HON. JOHN J. LaFALCE, CHAIRMAN, SUBCOMMITTEE ON GENERAL OVERSIGHT

Mr. LAFALCE. It's a pleasure being here with you and I think you want just a little bit of a summary. Is that right, Chairman Mitchell?

Mr. MITCHELL. A summary of the activities of your subcommittee.

Mr. LAFALCE. I think the thing that's been most on my mind and most on your mind, probably, is the economy. Within the economy there are a number of difficulties: inflation, unemployment. But lately one element has come to the forefront more so than any other, I think, even more so than inflation and more so than unemployment, at least as an immediate problem, and that's the subject of interest rates. So the very first hearing that my Oversight Subcommittee had was on the subject of interest rates and the impact that it was going to have on the small business community. Particularly, we wanted to focus on what might happen to interest rates were the cuts proposed by the President passed, the increases proposed by the President, especially in the defense budget, passed, and the tax cuts proposed by the President, at least for 3 years, much less ad infinitum, were passed. So we did have hearings on May 19, trying to bring in experts from across the country and the administration on that issue. I won't go into the conclusions of that because every person who is in the room, of course, who would read the transcript would come to a different conclusion. My personal conclusion was that it was clearly foreseeable. There was no question but that we would have and will continue to have high interest rates when you cut your taxes and your revenues in an unbe-

lievably greater amount, two, three, four times, depending upon the time frame you are speaking about, than you are going to cut spending. It's not something which should have caught us by surprise. In my judgment, a rational man could only have been led to that conclusion. Now, I may show a little bias there. But there are an awful lot of economists who are saying the same thing, too, but nobody is listening to them.

Mr. DAUB. I thought these were supposed to be reports rather than commentaries, and if they are not I'm leaving.

Mr. LAFALCE. Do you want to leave then, apparently? Apparently he does.

Mr. DAUB. I thought this was supposed to be a meeting that reported on what happened.

Mr. LAFALCE. Are you a member of the staff? Is that it?

Mr. MITCHELL. No; he's a Congressman.

Mr. LAFALCE. Are you a Congressman? OK. I haven't seen you in a meeting.

Mr. DAUB. Parren and I were talking to each other.

Mr. MITCHELL. If you will proceed, Congressman LaFalce, we will continue to demonstrate the kind of harmony and unanimity that exists on this full committee, please.

Mr. LAFALCE. OK. On July 3, we had hearings on SBA interest rate policies on guaranteed loans. Other witnesses included a Kansas City small businessman, several bankers, SBA in Atlanta, a lawyer engaged in legal challenges against bank use of the prime rate.

The purpose of the hearing was to hear from the small businessman how SBA guaranteed loans tied to the prime rate hurt small businesses, and I believe that SBA is now seriously considering not pegging their guarantee rate to the prime loan rate and they have issued, or they have called for comment from the small business community and from the banking community regarding alternatives to that fact.

We also inquired as to how the prime rate is really an erroneous reflection of what really is being charged. Certainly the guaranteed rate ought not, therefore, be pegged to that. In an overwhelming number of instances the loans that were being given, absent a guarantee, were not prime, they were below prime, and so we hope that we can get some measure other than the prime.

Yesterday we had hearings on a number of bills introduced by individuals such as Congressman Bedell, myself, Parren Mitchell, and Neal Smith, et cetera, that would try to improve innovation through the small business sector. The bills would set aside a certain percentage of the procurement, the R. & D. procurement dollar in the Federal Government for the small business community, on the thesis that the small business community has been the most innovative factor. As a matter of fact it has been proven from reports accepted by all of the representatives of the Government agencies that 50 percent of all innovations do come from the small business community at least.

We also had hearings in June, 3 days of hearings June 18, 23, and 25, to review the problems encountered by small business seeking to obtain and complete Federal procurement contracts. The hearings focused on the Public Law 95-507 goaling process which,

in our judgment, some governmental agencies were attempting to subvert. This is something we are not going to let up on when we pass Public Law 95-507. And it's not just a minority bill, it's a small businessman's bill in addition to being a minority bill. It is certainly both. We're just going to keep following through on this and we're going to make sure that no governmental agencies let up on that.

Next week we're going to have a hearing regarding the various State insurance codes which prohibit, absolutely prohibit insurance agents and brokers from discounting or rebating their commissions on the sale of insurance unless specifically authorized by the insurance policy, which is virtually never. The result has been a massive fixing of insurance agents and broker commissions by the insurance companies. We will probably introduce a bill this week that would prohibit the prohibition of discounts or rebatings, and in any event we will be having hearings on that next week.

In October and November we will be having hearings on how the insurance compensation rates are fixed by a cartel of insurers in a very profitable insurance area, and how this is causing at least a double burden for small businesses.

Also, I am going to be returning very shortly to a theme that I have stressed since 1977, and that's the importance of productivity. When I first started talking about productivity in 1975 not too many people were paying attention. Although I have had hearings in 1977, 1978, 1979, and 1980 on the importance of productivity I think that there is now a new awareness of its import. The movie, or documentary on TV, "If Japan Can Why Can't We?" I think started more people thinking than all the congressional hearings put together, and so we are going to try to focus in on that issue in the future. Thank you.

Mr. MITCHELL. Thank you very much, Congressman LaFalce. I would urge that if you have questions regarding any one of the presentations if you will jot them down, and I'd like to present all of the subcommittee chairmen's reports first, and part two of this hearing is devoted to an open discussion. At that time you can raise questions and direct them to any chairman who has made a presentation.

Congressman Luken chairs the Subcommittee on Antitrust and Restraint of Trade Activities Affecting Small Business.

Chairman Luken.

OPENING STATEMENT OF HON. THOMAS A. LUKEN, CHAIRMAN, SUBCOMMITTEE ON ANTITRUST AND RESTRAINT OF TRADE ACTIVITIES AFFECTING SMALL BUSINESS

Mr. LUKEN. Thank you Mr. Chairman.

Chairing the Antitrust Subcommittee is a new assignment for me this session. In discussing the subcommittee's direction, the members of the subcommittee met at the beginning of the session and determined not to wade into antitrust matters generally that are being considered elsewhere. Rather, the subcommittee decided initially to look at some specific issues and to consider this subcommittee as a procompetition subcommittee by emphasizing the posi-

tive rather than the negative aspects of antitrust matters generally.

The jurisdiction of this subcommittee, I might point out, is not only just antitrust and restraint of trade, generally but also specifically includes the Robinson-Patman Act, Sherman and Clayton Acts, the FTC, and other unassigned regulatory agencies. This gives us broad jurisdiction to look into some very important areas.

We began the year with an investigation of the FTC's antitrust enforcement activities due to the administration's proposal to eliminate the FTC's Bureau of Competition. That's been discussed here in our general meetings. It was a matter of intense interest to the small business community; however the issue was initially settled prior to any subcommittee hearings. We did talk to the FTC Director and others, and had some very fruitful sessions with them on antitrust enforcement.

On the specific issues that we have held hearings on, one has been the computer and data processing industry. As a member of the Communications Subcommittee of Energy and Commerce I have more than passing interest in this, but of course we wanted to look at it from the standpoint of a small business user. We examined the state of competition in the industry and how the small business computer end user benefits from any and all competition that exists.

The industry is undergoing a tremendous change at this time. The court cases are continuing involving A.T. & T. and the other giants in the industry, and the small business people are involved at every step and are very much interested in these proceedings.

During the hearing we received testimony from a wide range of small business people in the industry—data processers, programers, sellers of computers, manufacturers of telephone and communications equipment—and also from the small business computer end users. Generally we found that more competition means greater price competition which benefits the end user. We are going to continue this pursuit.

Also at the suggestion of minority ranking member, Mr. Lyle Williams, we looked into proposed Conrail changes and their impact on small business. Conrail has special application to small business, because many small businesses are at the end of the rail spur and will be stranded when that particular rail line is eliminated. We held a series of hearings on Conrail and I think these hearings emphasized the particular needs of the people served by Conrail.

Another interesting set of hearings which we have held this year is in reference to the regulatory agency EPA. EPA has proposed rulemaking on the subject of chlorofluorocarbons [CFC's]. Some people might think that this is too exotic of an area for the Small Business Committee, but it has a very special application to a wide range of business people, especially small business people in the refrigeration industry, the food industry, and the air-conditioning industry. EPA may propose to impose a cap on CFC production levels. As a result, the amount of CFC's available would be limited with the CFC prices skyrocketing. Many small businesses which need CFC's would be financially unable to bid on these higher priced CFC's. This in turn would lead to the elimination of most

small businesses in the air-conditioning and refrigeration industries. Our hearing focuses on the economic impact on small business of any CFC regulation by EPA and to impress on EPA the small business consequences of such regulation would have a great deal of difficulty. That's the third series of hearings which we have already held in our program of looking at specific issues as they affect the independent regulatory industries, FTC, and those which have special application in the antitrust and restraint of trade field.

We also intend to look very closely at the impact of mergers on the small business community generally as this session continues, and we will be discussing that in our upcoming meetings.

I think that summarizes, Mr. Chairman, the activities which we have had to date.

Mr. MITCHELL. Thank you very much.

I think it is just important to have this kind of hearing. So very often the working of the committee is not publicized. You don't know what hearings we're having, what results have taken place, and I think it's beneficial that we let you know on a firsthand basis precisely what is going on in our committee.

Chairman Bedell. Mr. Bedell chairs the Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business.

OPENING STATEMENT OF HON. BERKLEY BEDELL, CHAIRMAN, SUBCOMMITTEE ON ENERGY, ENVIRONMENT, AND SAFETY ISSUES AFFECTING SMALL BUSINESS

Mr. BEDELL. Thank you Mr. Chairman.

For the remainder of this Congress our subcommittee will be devoting most of its attention to oversight investigation matters within our jurisdiction. With this in mind our staff has been pursuing several investigations this summer.

In October we will conduct field hearings in New England. The subject will be energy usage by small businesses with the main focus being on the use of conservation and alternative energy technologies to help reduce energy costs.

During the winter months we will hold two sets of oversight hearings. One will look at the Small Business Administration's energy loan program. The other will be an examination of small business participation in research and development programs at the Department of Energy.

These are three new items currently on our agenda for public hearings. In addition, of course, the Energy Subcommittee will continue to monitor petroleum marketing developments affecting small business.

We have not yet discussed scheduled hearings beyond the winter, but it's also possible additional hearings may be scheduled in the next few months if the need arises. For the time being though, most of our resources will be dedicated to the investigations that I have indicated.

I served as one of two congressional delegates to the World Conference on New and Renewable Energy Resources in Nairobi, Kenya, about 1 month ago. I should tell you that we have a new

energy technology explosion facing us here in the United States and in the world as well.

I met yesterday with a specialist in regard to photovoltaics. That's where the sun shines on a panel and it generates electricity. He tells me that already there are contracts being let which will accelerate the commercial generation of electricity through the solar panels. The progress of this technology in the past few years has just been unbelievable.

Last Friday I was up in Massachusetts visiting with a number of small business firms involved in energy research. The Department of Energy is concentrating their money toward nuclear energy and large energy projects, and the disbursed energy technology budgets are being cut tremendously. Solar energy, for example, was cut by 75 percent by the President. Congress did not agree to that. But many contracts with small business enterprises, some of which are with tremendously exciting technologies, have been canceled. Some were 3-year contracts, funded for 2 years, and then canceled in the third year, in some cases without DOE even looking at the files to find out what sort of opportunities those projects might offer toward the solution of our energy problems.

I think the real problem that we face in our society is how to solve our energy problems quickly. That will depend upon how much we involve the small business sector in their solutions. And second, as they are solved, how much small business will participate in those solutions. At this time we see the major oil companies coming in and buying many of these small businesses, particularly solar small business, who are very creative entrepreneurs moving toward the solutions to our problems. And one has to ask, as the big oil companies come in and buy these small companies, whether the big oil companies are going to be highly motivated to see another type of energy replace the oil which they produce and on which they have not done too poorly in terms of financial returns.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much.

Next we will hear from Congressman Henry Nowak, who chairs the Subcommittee on Tax, Access to Equity Capital and Business Opportunities.

OPENING STATEMENT OF HON. HENRY J. NOWAK, CHAIRMAN, SUBCOMMITTEE ON TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES

Mr. NOWAK. Well, Mr. Chairman, thank you very much. Although we have missed your participation, we have still had the ability to accomplish a few things. I still look forward to having you attend some future hearing though.

Let me just summarize very briefly because I think the better part of this meeting may be the questions and the colloquies that we have after these presentations are over.

But I just want to touch upon a couple of things we did get into. My subcommittee has the jurisdiction over tax. This year, of course, it has been especially meaningful to us. We started with hearings early this year to try to find the right kind of mix of

things that hopefully in a universal way would make a real impact on the small business community in this country.

We held hearings on the effects of the Reagan tax proposals on small business, and determined that these proposals would not provide substantial capital formation relief for small business. Dan Marriott, who, of course is the subcommittee's ranking minority member, worked with me to help put together all the small business initiatives.

I believe our conversations with members of the Ways and Means Committee on that and other items we believed should be considered, and that the administration should look at, had some impact on the final bill as drafted. Although I do not believe the Economic Recovery Tax Act of 1981 which was passed and enacted into law, was quite as favorable to our small business community as the Ways and Means bill, a lot of us supported the tax changes because the act was a move ahead, and incorporated several of the subcommittee's proposals. I don't think they have gone far enough, but at least we had a start with inventory reform, some direct expensing, and reductions in the corporate rate tax. I think our input was invaluable.

The interest rate problem is in many instances overwhelming, and we have heard this from numerous small business groups and individuals. Whatever you do in the way of tax incentives for stimulating business won't really overcome the financial burdens that are being placed upon small business, especially those who have dealt with any kind of inventory financing. It's very difficult to overcome that 20 or 21 percent interest rate, no matter what else we may have done in tax depreciation areas it's not going to make up for that and until we can do something with the interest rate that problem will exist; but, of course, we've got to keep trying. Some of you may be familiar with the interest rate hearings we have had in the past. We are trying to encourage the Fed and the administration to look at some kind of two-tiering of an interest rate for the productive sector, and by the productive sector, of course, we are talking about small business. We believe that if we could two-tier that rate you would get more money into the small business community—more expansion, more jobs, more technology, more innovation, and so forth. But we are still going to have that problem with us and consequently we hope to have hearings on interest rates again before we adjourn, to see if the administration anticipates any change. You know, several months ago they testified before our subcommittee that the rate would come down, but of course, it has not.

We also plan to have inventory hearings in the future to see what effect all the tax incentives are having out there, and especially the inventory accounting changes that were made. We want to see if they go deep enough and if there are meaningful changes.

A new concept, of course, the enterprise zone holds hope out for more incentives in the tax area, and a question arises whether that will be enough in and by itself to revitalize our older cities and at the same time provide deeper incentives, really, for small business to expand in distressed urban areas. And we are in hearings right now exploring job creation and revitalization of small business. Yesterday we focused on skilled labor shortages as they adversely

affect small businesses, and on the 22d we will move into other areas of proper economic incentives for distressed urban areas.

In summary, what we are saying is that we are taking the overall budget and concentrating on several subjects of importance to urban areas where an awful lot of small business has started and existed, and providing incentives through the Tax Code. And for those incentives of course to be meaningful, there has to be some kind of gross profit available for use of those tax incentives. A larger question arises whether that will be the catalyst for a great expansion in the small business area. Some people seem to think it will be in and by itself. Well, I have my doubts, but we will be looking at the interest rate problem, the inventory accounting changes that were made, and of course, the interest rate as it affects small business in the future as well as the whole enterprise zone concept which I think is new, could be innovative, and I hope will be very helpful. We certainly want to have extensive hearings to get the best possible mix and at least try not to conflict with but to have something that will complement the Tax Code changes we have made with new tuning in the small business area.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much.

Congressman Andy Ireland chairs the Subcommittee on Export Opportunities and Special Small Business Problems. Congressman Ireland.

OPENING STATEMENT OF HON. ANDY IRELAND, CHAIRMAN, SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

Mr. IRELAND. Thank you, Mr. Chairman, and thank you for the opportunity to describe what we are doing on our subcommittee.

As you know, many of us worked very hard over the last 3 years to develop the Regulatory Flexibility Act and then enact it into law. At the time the bill was signed into law we pledged strenuous and vigorous oversight of the act. This October we will deliver on that promise. On October 7, the Administrator of the SBA and the Chief Counsel for Advocacy will appear before our subcommittee. We will ask them how the SBA itself has implemented the act and how they are overseeing the other Federal agencies' implementation of the act.

That hearing will be followed by more hearings in October during which we will hear from one agency after another on the regulatory flexibility performance that they have obtained. Hearings will continue early next year.

I ask all of you on the committee, as well as those of you in the audience to let us know if you believe some agencies are not adhering to the principles of the act. If you have such information if you would provide it immediately to our subcommittee staff we will be glad to raise any complaints you have with the appropriate agency.

For years the small business community has justly complained long and loud about the oppressive Federal regulatory and paperwork burdens. The law to deal with the problem is now on the books. It's up to us to make it work.

When the committee debated the SBA budget cuts I pointed out that I was disturbed by the fact that to many people it seemed that the SBA loan programs were the sole Federal recognition of small business. In fact, such loans, as many of you know, have only reached about 1 percent of this country's small businesses since the inception of the Agency. That's a very, very small percentage. There are many Federal offices which have been set up to provide specific assistance to small business. The question is: Where are these offices and who are the people working there waiting for small businesses to approach them? If small business doesn't know that these offices exist they are not going to be of much assistance. I intend to compile a hearing record and issue a final report which will be an informative guide for the small businessman or woman in their attempt to find their way through the Federal bureaucratic maze.

The subcommittee will begin hearings on this subject September 22 and 23. They will continue on October 22, and then we will continue the work next year.

Our subcommittee is also involved in a number of other issues that I would like to describe briefly. On exports we are awaiting a response from the Reagan administration to our suggestion for a small business conference on exports before we proceed further in this area that we were active in the last session of Congress. The response from the administration has been good. I think this will be an important step forward.

So far this year we have had five hearings on the USDA commodity procurement procedures for the Nation's school lunch program and other food programs. The subcommittee will be prepared to issue a report with recommendations on the subject later this year.

On the subject of independent truckers, three Federal agencies, the Small Business Administration, the Interstate Commerce Commission, and the Department of Transportation, have initiated a series of training conferences for owner operators in the trucking industry. This was a result of a recommendation by our subcommittee. The first 15 conferences have been held. On September 30, the subcommittee will hold a hearing to receive progress reports from these three agencies. I'm glad to report that attendance was far beyond what any of the agencies anticipated and the response was very good.

The funeral industry is a continuing item of interest for us. In that area we will continue to oppose the attempt of the FTC to regulate the funeral profession. The FTC's proposed regulation, if issued, will no doubt lead to a test of the FTC congressional veto.

The White House Conference on Small Business was a vehicle for the small business community to make great inroads against the problems that faced them at the Federal level. However, there is much more to be done as everyone in this room knows.

Small business faces obstacles on the State and local levels as well. I was able to persuade the Governor of the State of Florida to have a small business conference on a statewide basis. It will be held this fall. I would suggest to all those here both in the audience and on the platform here that this is an important thing we can do for small business. If you have not yet had a State small business

conference modeled after the White House Conference I would urge you to do so. The results can be most gratifying for small business.

That, Mr. Chairman, is my report.

Mr. MITCHELL. Thank you very much, and I thank you and all the subcommittee chairmen for being here and making the presentations.

This next portion of the hearing is dedicated, or is open to you. You are absolutely free to raise questions to any of the persons on the committee. I would recommend that if your question is specifically related to a tax issue that obviously you would want to address it to Chairman Nowak. If you have a problem or a question relating to an energy issue, certainly that should be directed to Chairman Bedell.

You are not limited to just raising questions. If you have statements to make we will be glad to entertain them. We have a microphone set up in the middle of the floor for your use. The only request I would make is that you would give your name and if you represent a trade organization or trade association give that for the benefit of our recorder.

We are now open for your questions, comments, et cetera. Yes, sir. Why don't you come right to the mike.

TESTIMONY OF EUGENE CARR, PRESIDENT, DAKIN5 CORP., DENVER, COLO.

Mr. CARR. My name is Eugene Carr. I am president of Dakin5 Corp., in Denver, Colo. I would like to make a statement and also direct something to the gentleman over here talking about the computer industry.

Our company manufactures software for microcomputers and I would like to propose an awareness of a problem that we really see coming up in the industry that I think affects small business very drastically, so if I could take a minute I'd like to explain what that is.

Mr. MITCHELL. Surely.

Mr. CARR. In the past, the small businessman, if he bought a computer he essentially paid $30 to $40,000 for a computer, he had a programing staff or he hired a consultant to come in and do programing changes, design a system, or whatever.

When the Government changes regulations, such as the W-2 forms at the end of the year, the depreciation regulations, that type of thing, this was a problem that could be resolved by having the programing people come in and change the programs. While it was not easy to do, it was expensive, and it could in fact be done.

Today we face a different situation. The microcomputer that is being available today sells to the small businessman for about $5,000. This particular computer allows hundreds of thousands, not tens of thousands of people to own computers. By 1983 that is estimated to be about 1 million computers in the small business area. Now on the surface that doesn't appear to be a problem, but if a man is buying 5,000 dollars' worth of computers he is not going to buy 25,000 dollars' worth of programing assistance. That means he must turn to software programs that are already on the shelf preprogramed, ready to go, provided for about $500 or $600.

Now, the problem comes in in that when the Government changes the regulations how do you go out and convert 1 million programs overnight? There are not enough programers available. There are not enough consultants available. You just can't get to these people, so it is really manyfold. It is one, the regulations change very rapidly and when they do change they affect programs that must, in effect, be done overnight. An example is the payroll taxes. When the W-2 forms change on December 31, or January 15, you have to have your payroll programs updated and ready to go for the new year. It cannot be done in the mode of operation we have today.

Now, there are a number of ways you can look at addressing this. I don't think we really need to go into it today. I'm trying to make a point of awareness to you that this is a problem that did not exist 2 or 3 years ago that in fact is becoming more apparent today and is going to be of a magnitude that just can't be handled under existing circumstances 2 to 3 years from now.

I'd like to submit this. You said we could insert some sort of a written document, as I recall. I'd like to submit this to you.

Mr. MITCHELL. Fine. Thank you, and this will be incorporated into the record.

[Mr. Carr's prepared statement follows:]

PREPARED STATEMENT OF EUGENE CARR, PRESIDENT, DAKIN5 CORP., ON BEHALF OF OTHER GROUPS AND INDIVIDUALS

STATEMENT AND OVERVIEW OF THE PROBLEM PRESENTED, WITH AMENDMENTS AND ADDITIONS

1. Many small businesses now purchase micro-computers and micro-computer software to perform accounting and tax compliance functions. There are presently 100,000 plus micro-computers in business use and that number is increasing exponentially.

2. Congress or tax regulatory bodies from time to time change formats of tax forms, formulas, and rules of tax liability and other items of tax law, trying to save the small businessman money. These changes in law automatically obsolete computer operating systems (i.e. software) costing the businessman much more money in new software and computer downtime than he ever gained from the tax savings item.

3. Computer software is a "permanent mold" tool, extremely difficult to change once written. Software for tax calculation and tax form preparation is especially difficult to alter.

There is a notion that you can just walk up to a microcomputer and reprogram its software in a matter of minutes with the right commands. This notion is catagorically mythical and false.

4. Software manufacturers can put out updates on their tax software, but they are impaired by 2 conditions:

a. They can't locate each and every user of any given tax package.

b. Tax laws are sometimes effective instantaneously. It may take 5-6 months (by contrast) to develop a proper software update to meet a change in tax law.

5. IRS rulings hold the software manufacturer liable in the same way as a tax preparer for currentness and accuracy of a user's returns. Computer software manufacturers, by the nature of their products' development process, cannot deliver desired results on that liability if tax laws are changed instantaneously, with relatively immediate effective dates.

POSSIBLE SOLUTIONS

1. Absolutely minimize format changes in frequently used tax forms.

2. Form a committee of computer professionals, reporting to the Regulatory Relief Task Force on the problem. Hook up this committee with IRS tax regulatory writing groups dealing with tax forms, and other appropriate writing groups.

3. Review IRS Ruling 8111071 12-17-80 etc. so as to add provisions for lead time in updating software to meet tax law changes currently enacted.

Mr. MITCHELL. May I ask, do you have some recommendations?

Mr. CARR. Yes; there are some recommendations on there. If I can give some examples of a good and bad technique, if I may, the FICA is an example. The computer program does not have to be changed to change your FICA limits every year. When a regulation is set up that takes into consideration that type of thing, what is the new limit can work. One that's very bad is the W-2, as an example. Every year the format of the W-2 form changes. That requires completely reprograming. Those are the types of things that when you set up legislation if you take those into consideration, and some form of advisory group can be made up of people in the industry that can help you say this is how we can address this computer problem, that's the type of thing I'm suggesting.

Mr. MITCHELL. I think you said you had a question you wanted to direct to one of the members?

Mr. CARR. Well, Mr. Luken, who is covering that particular area of computers in the large area, IBM, A.T. & T., and that kind of thing, this takes up the other realm and I really direct it at him since that seems to be his area of interest.

Mr. MITCHELL. Fine.

Mr. LUKEN. If the chairman would yield, yes, as you have pointed out, what we have been investigating in our subcommittee is the competition angle and the effects of competition or of monopoly, as has been charged, in the industry. What those effects are, and obviously they are sweeping, and how very important they are to the people in the industry as I am sure you would verify.

You bring up an additional and a different kind of a problem: The direct impact of Government regulations in that particular industry. However, I think it is related and we might consider whether or not this subcommittee or one of the other subcommittees which is involved in regulatory problems would want to take it up further. We will certainly follow up on it. It's a good point.

Mr. IRELAND. Mr. Chairman, if I may.

Mr. MITCHELL. Yes.

Mr. IRELAND. It seems to me, without seeing your proposed solution that there are two ways of approaching the problem: One, have no change coming out of the Government. On the other hand, it seems to me that this is a great source of new jobs. You say there are not enough out there able to do it, is there no reason why some people cannot be trained to do this? I've got a little computer at home and it didn't take me long to find out how to reprogram it. Can't the small businessman do a lot of this himself?

Mr. CARR. I'm not advocating no change. That obviously is not the right approach. What I am suggesting is a controlled method of change where we are aware what the change really does to us.

As far as new jobs, yes, the data processing field is one where jobs are absolutely going to be growing over the next few years. The problem really comes in, if I can use an analogy, would you as a consumer buy a TV set if you had to learn how to fix it first? The answer to that is obviously no. The mass marketplace does not operate in that kind of a mode and the microcomputer field is working very much toward that same type of thing. The number of com-

puters going out into the business world, which is the primary growth area for the next 3 to 5 years, far exceeds the ability of trained people to go in and design computer systems and write programs. There is just no way we can keep up. Well, that's the problem that we are addressing.

Mr. IRELAND. On your analogy of fixing a TV, we are not talking about programs, that is a far different thing than fixing the insides of a gadget, or fixing the insides of the TV. It seems to me that there is a lot of change that someone on the staff of that small business, or the small businessman himself can make. I do the same thing myself. They are two different things and I would hate to see your industry come up with a thrust that says you have to have some certified programer to change the program on your computer to keep up with the change needed on your W-2 form.

Mr. CARR. It would be nice to believe that the technical expertise is not needed. That's really an established falsehood that's in our industry, unfortunately. It isn't that some people cannot go in and write programs for computers and change them, the problem is that the vast majority of people cannot do them. It isn't that some people can't go into a TV and fix it. In fact, the vast majority of people cannot do it.

Mr. IRELAND. But they can learn it. What I am saying is the small businessman can do a lot of that in his own shop by himself without going out and getting somebody——

Mr. CARR. Not really.

Mr. MITCHELL. May I interrupt for just a moment? I want to give you as much time as we can but——

Mr. IRELAND. That's fine.

Mr. MITCHELL. But there are a number of people who want to raise statements and obviously this is a problem that falls within the purview of two of the subcommittees: I think your subcommittee, Andy, on small business problems, and certainly Tom Luken's subcommittee.

Mr. CARR. Thank you for the opportunity for allowing me to make you aware of this.

Mr. MITCHELL. Thank you. We will try, and I am not imposing any arbitrary constraints, but we will try to limit each person to a statement and the responses of this panel to about 5 minutes.

Next person. Anyone else who has questions, or a statement they want to make? Yes, sir.

TESTIMONY OF JERRY GULAN, VICE PRESIDENT, GOVERNMENT AFFAIRS, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. GULAN. Thank you, Mr. Chairman. I am Jerry Gulan, with the National Small Business Association.

I think this is a very innovative program you've got, being the second meeting of the year, Mr. Chairman, and the attendance I think is expressive of the reaction of the small business community to your ideas and to the opportunity to listen to you people in your committee, and the subcommittee chairmen tell the small business community not only what they have done, but what they hope to be doing and to elicit perhaps and unify the support into it. This

has not happened over the years and we are happy for the opportunity.

Very briefly, we are very interested in the high interest rates that Mr. Nowak has already addressed, and we have done some work with him and with the Fed on it and we have been tracking the alarming increase in bankruptcies and seeing how they track the peaks in the prime rate and the interest in a cyclical manner. We hope something can be done about it.

Herb Spira, who is our——

Mr. LAFALCE. I might just interrupt for a minute to say I have had a staff member looking into the problem of a tremendous number of bankruptcies and we probably are going to be having some hearings on that issue.

Mr. GULAN. Very good. I think you will probably have a lot of attendance at that hearing.

As I was saying, Herb Spira, who is our tax and legislative counsel, has been doing a lot of work on this and I would ask him to make a few remarks on that, and with your indulgence I'll ask him to do that.

Mr. MITCHELL. Sure. And might I suggest, let's not be so formal up here. If you have something to say don't say, "Would the chairman yield?" Why don't we just kind of conduct this on an informal basis. I think we will save a lot of time. Thank you.

TESTIMONY OF HERB SPIRA, TAX AND LEGISLATIVE COUNSEL, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. SPIRA. Mr. Chairman, and subcommittee chairmen, this meeting is very useful for us to focus on, as your press release asks the economic effects of current policies on small business.

We have been trying to monitor those among our own members and among the small business community more generally, and we have come up with some very alarming statistics on bankruptcies. We have found that from the middle of last year to the middle of this year business bankruptcies, as charted by the U.S. courts, the actual filings of bankruptcies have increased 30.1 percent. This is a big jump in historical terms. During the 1960's bankruptcies remained almost constant at about 1,350 per month. In 1975 they were very high. From 1970 to 1975 they more than doubled. From 1975 to 1979 they came down from about 35,000 a year to about 29,000 a year and remained constant for awhile.

Then when interest rates went up beginning in October 1979, bankruptcies also began to climb with them. They hit a new plateau of about 4,000 per month in January of this year, and we found that if you look at the Dun & Bradstreet statistics which break bankruptcies down by industry you find even higher totals among those interest rate sensitive industries such as auto dealerships and builders. In fact, the construction contractors and subcontractors bankruptcies are up almost 50 percent in the first 3 months of this year.

We also found, in cooperation with the work that you are doing on your full committee staff, Mr. Chairman, some excellent economic work being done that you have been able to obtain a chart showing the correlation between interest rates and bankruptcies,

and the correlation is very striking. In economic terms it is almost 75 percent, which I am told by the economists is a very high correlation. And so we can expect that if interest rates stay at these levels the bankruptcies will continue to set records.

This information is being cleaned up and we hope we will be able to submit it to you for the record for this hearing.

Mr. MITCHELL. We are most anxious to get that, all of us are. I'll just make an aside here. When I learned earlier on this year that we were seeing an annualized small business failure rate at 20 percent, that was just amazing to me, and now it's even worse when you give us these rather grim statistics on bankruptcies.

Mr. DAUB. Mr. Chairman.

Mr. MITCHELL. Why don't we go with you first, Congressman Daub.

Mr. DAUB. You are aware that individual consumer bankruptcies are up, are you not, at an alarming rate? Did you do any correlation work where you find out that a large number of individual bankruptcies then affect the business itself because its receivables are up and therefore uncollectable, and it forces it to be a prime candidate for bankruptcies as well?

Mr. SPIRA. Yes, sir. That appears to be a direct relationship. In fact, there is a preliminary——

Mr. DAUB. Contractors, small homebuilders especially, one guy goes belly up as an individual and he in turn forces that business then to file as well because it was his largest outstanding receivable?

Mr. SPIRA. That's right. The new law broadened the exemption.

Mr. DAUB. I was going to ask if it wasn't the new law, I wonder, precipitate to some of the alarming increase in the figures?

Mr. SPIRA. That's right; a direct cause of it because it allows both debtors to claim their exemptions, and it broadened the exemptions. It did not make it easier for businesses. It made it much harder for businesses because of exactly the reason you are stating. In fact, the National Retail Merchants Association did a newsletter on this.

To give you an example, Sears losses increased 120.4 percent. Montgomery Ward's losses increased 117 percent, and for the few larger independents, such as Woodies, and Profits, and so forth that are members of their associations, they had two of them on the list. Both of them were over 200-percent increases in losses in calendar year 1980 over 1979.

Mr. DAUB. Well, Mr. Chairman, I certainly would hope whether it be John LaFalce's subcommittee, or some other subcommittee which takes a look at the bankruptcy law and the relationship of the individual to easier access of a wipeout as that precipitates the small business's tougher time, but nevertheless the House accords some of the preliminary information that my staff and I have looked at the last 1½ months indicate a relationship. I am not sure that's true, but I do hope that one of our subcommittees really starts to take a look at what modification or revision legislation might be of use in the bankruptcy area, even though that might be a Judiciary Committee province, I think we as small business interests here could commence that process and kick some ideas over to Judiciary for some needed reform.

Mr. MITCHELL. Thank you.

Any other comments?

Mr. IRELAND. I share in the gentleman's view about looking into bankruptcy reform. There's a lot that can be done, in my view, whether we've got high interest rates or low interest rates.

I would like at this point to make a comment on interest rates just for the record. I don't like high interest rates any more than anybody else does. I would point out for the record though that those that would say that you can separate high interest rates from inflation like they are two separate unrelated items are making a terrible mistake. High interest rates we see now are the result of prior policies, prior policies of last year, 5 years ago, and 20 years ago. Not one thing that we have passed in the way of tax cuts and spending cuts has gone into effect yet. We must let the programs that this Congress has put into effect take hold.

Yes, high interest rates are bad, they are hurting the economy, something should be done, we need to keep moving forward and give the programs that this Congress has put together a chance to work.

Mr. MITCHELL. Well, I'd like to say—may I just proceed for 1 minute and then I'll get to you?

I'd like to say I don't think it makes much sense insofar as high interest rates are concerned, to start placing the burden on past policies and that kind of thing. The reality is that the interest rates, as of this moment, are just hurting all small businesses and therefore, without attacking or denigrating in any fashion the policies passed by Congress, I think this is a problem that has to be addressed. I don't think we have to live with high interest rates while we are waiting for these policies to begin to work, if they work at all. So I would caution everyone that this should not necessarily be a political exercise. I think we would like to try to concentrate on grappling with and resolving the problems that are immediately before us, and certainly high interest rates are one. Congressman Bedell.

Mr. BEDELL. Mr. Chairman, that's exactly what I wanted to point out. For the record, I disagree with Mr. Ireland in regard to whether what we have done adversely affects where interest rates are, but I do not think this is the place for us to debate that, as Mr. Daub indicated earlier.

Mr. MITCHELL. Thank you very much.

Are there others? Yes, sir.

Mr. DAUB. Mr. Chairman, are we going to get the information? He said something about cleaned up form.

Mr. MITCHELL. He said that would be submitted to us.

Mr. DAUB. Good.

Mr. GULAN. Sometime next week, Mr. Daub.

Mr. DAUB. We appreciate that very much.

TESTIMONY OF TAYLOR THOMPSON, PRESIDENT, THOMPSON'S ELECTRIC CO., INC., THOMPSON'S ELECTRICAL SUPPLY CO.

Mr. THOMPSON. My name is Taylor Thompson, president of Thompson's Electric Co., Inc., Thompson's Electrical Supply Co.

And I wanted to find out where and when will you start recertifying people on the 8(a)?

Mr. MITCHELL. All right, I think I can respond to your question.

Mr. Cardenas, the Administrator for the Small Business Administration, appeared before our subcommittee—I forget when that hearing was—and we questioned him about this whole moratorium that had been imposed and how he intended to handle that.

His response, as I best recall it, was twofold: One, that those 8(a) applications that were in the pipeline would be processed. Those that were in before the moratorium was imposed would be processed. No. 2, he indicated that he had hoped to lift the moratorium in September. He said that was his objective so I am assuming that he will meet his objective and certification will continue beginning in October.

Mr. DAUB. Mr. Chairman, did he not indicate that that would be consistent with the promulgation of the temporary set of rules that appeared in the Federal Register that were to lead them to a set of formal rules sometime in September?

Mr. MITCHELL. Yes; he did. He did allude to that, but we are working on the assumption that hopefully, if all things go well, that certification process would begin in October.

Mr. THOMPSON. My second question is are we saying that people that are certified will have 10 or 15 years, or will people eventually work themselves off of the certification list in 4 or 5 years?

Mr. MITCHELL. Well, we are not saying 4 or 5 years. There are two things that have happened: One, some of the firms, because of size, it has been proposed that they be graduated from the program. Two, we are still wrestling with the length of time that any person can stay in the program. As you know, the Administrator—or you may not know—the Administrator proposed a 3- to 5-year period where one could be in the 8(a) program. There was a very strong feeling, based upon testimony we received, that that was not a sufficient length of time.

Mr. THOMPSON. It's not. No. The reason I asked, if a certain number of people stay there a number of years there is no room for other people to participate.

Mr. MITCHELL. I would just respond——

Mr. THOMPSON. I mean we have been in business since 1951 and we are still talking about getting certified, so I'm not, you know, complaining. The only thing I'm saying is like if people that are on there now stay for——

Mr. MITCHELL. Well, if you've been following, there is a move to graduate. There is a move to fix the length of time. None of these, or neither has been finalized.

Mr. LAFALCE. To clarify the point then, you have a strong feeling that there should be a graduation program in a certain period of time that an individual is expected to develop his business acumen and expertise so as he would not rely on the 8(a) program to make room for others, such as yourself, who have been waiting to get on it. Is that correct?

Mr. THOMPSON. That's the general idea.

Mr. LAFALCE. Thank you.

Mr. MITCHELL. Fine. And let me just comment there is another component we have to wrestle with. We heard fascinating testi-

mony from a gentleman who was opposed to any Government programs, but he indicated how foolhardy it is to just capriciously graduate firms from the 8(a) program until we have addressed the problems that those firms confront of access to capital in the private market.

Yes, sir.

TESTIMONY OF JOHN FITCH, NATIONAL ASSOCIATION OF WHOLESALERS

Mr. FITCH. Thank you, Mr. Chairman. I am John Fitch, with the National Association of Wholesalers.

First of all I'd like to add a little more fuel to the interest rate debate. We've been talking, a lot of our members who are wholesale distributors throughout the country, and they tend to agree with Mr. Ireland in the sense that they feel inflation is far more a critical factor to them than interest rates, and this is coming from an industry that finances its major asset, which is inventory, 10 or 12 times a year as they turn that inventory over. It's quite contrary to the feelings that I felt were important in terms of that kind of environment, and interest rates would be, in fact, more important. But they say inflation is more important, so I'll just let that one go out.

Second of all, I'd like to speak in strong support of Chairman Nowak's efforts in the tax area, particularly in inventory reform. Obviously, that's an issue with us. There was some minor activity in this Tax Act that dealt with some of the LIFO provisions, but there still remains significant reform in the LIFO area which an inflammatory economy is important to small business in terms of its complexity and its ability to be utilized. And in the issue of the solar power tool case where you write down excess of obsolete inventory, that's a critical issue.

I'd like to point out another issue that has not been dealt with, but it's a provision of the Windfall Profits Tax Act with regard to LIFO recapture. There was a 2-year effective date postponement on that provision to allow Congress to have an opportunity to examine this issue because it did not get any hearings, or public input, when it was put in on the floor during the windfall profits tax bill on the Senate side. The problem is that it affects the area of mergers and acquisitions because it pretty much, when it goes into effect, will reduce the small businessman's ability to sell that business other than through acquisitions and mergers because of the big liability with his LIFO reserve. So I would like to make a point that the members of this committee and other Members of Congress have but a few months left to take a look at this issue and act on it.

And finally, I haven't heard anything about the major revision to the Federal procurement laws, which I understand will be coming up to Congress sometime in October. I don't know whether this committee will have jurisdiction over that, but I think the small business community, particularly wholesaler distributors, are much interested in the revision of that to allow more contracting out to make the Federal supply thresholds a little higher so local purchasing agents can use the local businesses to buy goods and services

and utilize that local market more than having to buy from the Federal supply schedule.

Mr. LAFALCE. We did have a hearing. We had the Administrator of the Office of Federal Procurement Policy testify before us the day after he was sworn into office, and my staff has been working with him on the drafting, as you know, of the uniform procurement policy. And I would very much appreciate your written thoughts on what that should or shouldn't contain.

Mr. FITCH. We'd be happy to provide that, Mr. Chairman. Thank you very much.

Mr. MITCHELL. And indeed, there is an understanding that this committee will have major input in the final revisions that take place.

Mr. FITCH. I hope so. Thank you.

Mr. MITCHELL. I think this gentleman was next. He was waiting in line.

TESTIMONY OF NEIL RUTTENBURG, GOVERNMENT CONTRACTS LAWYER AND SPECIALIST

Mr. RUTTENBURG. Thank you, Mr. Chairman, and subchairmen. My name is Neil Ruttenburg. I'm one of those most despicable Washington creatures. I'm a Government contracts lawyer and specialist, and I have some of my clients in the room today and their concerns—small business clients—certainly are along the lines of the new procurement bill that was mentioned that was just coming out.

Instead of going through that today, which is quite a challenge and quite a subject, you've had meetings with Mr. Sowle on that, I'm sure you know. We'd like to address some immediate problems with the implementation of the legislation that is already on the books, for example the Regulatory Flexibility Act, and the Equal Access to Justice Act.

We understand that the Department of Defense is taking the position that neither of those two acts apply to them, and of course a large portion of the Government procurement that's done for the largest portion is through the Department of Defense. So it would be a very serious weakening of that legislation, which is very important to small businesses, if in fact somehow it isn't made applicable to the Department of Defense.

Mr. MITCHELL. Let me interrupt you. I am convinced that there was no intent on the part of this committee to exempt the Department of Defense from these regulations.

Mr. RUTTENBURG. I don't believe that there was any intent myself that they be exempted, but the arguments are being made, I believe, that they are exempted from the regulations.

Mr. DAUB. By whom, and where within that establishment, do you know?

Mr. RUTTENBURG. I wouldn't want to say off the top of my head, but I could try and find out.

Mr. LAFALCE. Well, for example, DOD has a letter from the Legal Counsel that says they are exempt under the provisions of the law.

Andy, you have pursued this too, haven't you?

Mr. IRELAND. Yes; and we are actively pursuing it. The DOD is going to come before our subcommittee. The letter Mr. LaFalce refers to has been the watershed of our discussion with the DOD.

The administration's task force on regulation, and in particular Mr. Weidenbaum, whom I have had a number of conversations with, have gotten some very good results, we think, and an attitude from the DOD that they are willing to work with the regulatory flexibility. So I think after our hearings we ought to be moving in the right direction.

And your point is well made that we need to get this regulatory flexibility as much from the DOD as we can.

Mr. RUTTENBURG. Well, I would like to see it. I am on the regulatory task force responsible for DOD, and I think they are going to fight it. But any help we can get would be greatly appreciated.

If I may, the question of implementation of law goes across the board, and we have also found at the grassroots level that the laws in the 8(a) program, a lot of these small business laws are being perverted at the lower levels and actually doing the contracting. In some ways there are examples which tend to show that some of the 8(a) provisions could be actually used to hurt 8(a) contractors.

There should be a manner in considering the new procurement law of making the contracting officers, the procurement personnel more responsible for their actions on a personal basis. I would like that to be considered by this committee.

Mr. MITCHELL. Congressman LaFalce indicated that one of the methods by which we seek compliance is through rigorous oversight. I know he has been doing it, and certainly all of us are committed to that.

Just by way of illustration, at one of the hearings we held out in the field we learned that some 42 contracts had been approved not in compliance with the law. We have secured a listing of all 42 contracts and our staff is following through on that. I wish I could give you a better answer but the only one I can give you safely is that the problem is solved by rigorous oversight on the part of the subcommittees and the full committee.

Mr. RUTTENBURG. I'd like to suggest that perhaps that problem is certainly helped by rigorous oversight, but I would like to see more teeth in the procurement laws with respect to the individual actions of procurement officers. That would be our suggestion at this point in time.

And as a last suggestion, well, two last suggestions, the present procedures—and this is also being studied by OFPP—the present procedures on bid protests are absolutely useless and there is new legislation in the hopper on that, I know, but we need some kind of a real bid protest procedure, and perhaps the one using a branch of the executive, also again with teeth to enforce the laws and the regulations that are in effect should be more seriously considered.

Finally, the procedures of the SBA, at this point in time, the Small Business Administration, should be strengthened to help the small businessman. My clients have the feeling that there is a danger that they are now being weakened and the Office of Advocacy will not be acting as strongly as it has in the past, and we would like to see that office be as strong a voice for the small businessman in Government contracting. And I thank you very much.

Mr. MITCHELL. Thank you. Are there comments, or questions? All of your recommendations are——

Mr. BEDELL. Mr. Chairman.

Mr. MITCHELL. Yes, Mr. Bedell.

Mr. BEDELL. Maybe Mr. LaFalce should speak rather than myself on this, but the Office of Advocacy was at Mr. LaFalce's hearing yesterday. At least in this member's opinion it came through fairly clearly that, in my opinion, Frank Swain, who is the director of that office, has good intentions. I was favorably impressed with him. My personal opinion of him is that he hasn't yet come to realize the freedom that we gave him in that office. And I believe that this committee should continue to properly push him, to tell him that the mandate that he has to be an advocate for small business. I think it's the responsibility we all have as members of this Small Business Committee.

Mr. MITCHELL. Would you mind? This gentleman has been trying—he's not in line, but he's been trying to get to the mike.

TESTIMONY OF JOHN JOHNSON, NATIONAL ASSOCIATION FOR THE SELF-EMPLOYED

Mr. JOHNSON. My name is John Johnson. I'm with the National Association for the Self-Employed. I have one comment on the first gentleman's talk about programing and computers, to Mr. Ireland.

Right now there are approximately 60,000 jobs computer related going begging because we don't have enough qualified people to handle those jobs. Most of those are in big business.

It's very easy to program a bank account, or a list of Christmas card people on a small computer, but it takes a little bit of extra knowledge from a small businessman's standpoint to program withholding, and FICA, and all the other deductions that the businessman has. That is not his business. His business is not tax. His business is plumbing, or hardware, or whatever it is. I don't need an answer to that, I just wanted to make that comment.

My question is to Representative Nowak. Our people are interested in the prime interest rate, naturally. Can you expound on what we are doing looking into the two-tier rate for interest?

Mr. NOWAK. Yes. We've proposed, along with something else that I think will be very attractive, the cash accounting; but let's take the interest rate because you brought that up.

We had several hearings during the Carter administration and carried it into the Reagan administration trying to encourage the Fed to look at a method of approving a tiering so that these so-called productive loans to small business could be exempt from the reserve requirement or such other method to make it more feasible for those loans to go out even 3 to 4 percent below what is termed prime. And there had been, I believe, during the Nixon administration, some attempt to do that without any legislative change and there was a question of whether or not any legislative change would be required. However, the Fed has not taken that to heart, and as of this point has not proposed, either administratively or legislatively, any changes which would result in that tiering of the rate.

I don't know of any movement in the Banking Committee to hold any further inquiries as to the tiering rate. However, I know there are many people on that committee who are also very upset about the general effect of high interest rates. So we will continue to look at that and try to encourage the Fed.

I think, you know, as the problem grows, as there is more response from the business community for such a tiering, the greater consideration in both the administration and the Fed that will be given to some type of differential in that rate. How long it will take I don't know. It's sort of at a standstill here what further we can do except show the effects of what the rate is doing on Government borrowing as well as borrowing out there in the sector. It seems to feed upon itself.

Mr. JOHNSON. Can I assume that the members of the Banking Committee you are talking about are majority members and not minority members?

Mr. LAFALCE. I'm a member of the Banking Committee. I happen to be a member of the majority, so let me speak.

Certainly we are interested in the problem of interest rates. Every member, I think, is whether he is majority or minority, North, South, East, West. We are all interested in it.

Mr. JOHNSON. I meant interested in the tier.

Mr. LAFALCE. The primary focus of the Banking Committee thus far has been the validity of the use of the prime rate because very often the prime rate is not used uniformly. The prime rate is theoretically the rate that's used for the best customers, but very often best customers don't get prime, they get something below prime. And so there is a speciousness to the concept that the prime is what goes to the best customers. Very often it's below prime that goes to the best customers, and everyone else would get prime plus a couple of points, 2 or 3 points or so.

But also I held hearings on the two-tier interest rates back in 1977–78, and I'm just convinced that although some banks throughout the country—I came up with a list of around 100 who profess to use two-tier interest rates. The Office of Advocacy held hearings on two-tier interest rates. They've got a list of these banks, too. They try to encourage a policy of it.

The fact of the matter is that the banks are going to give the lowest interest rates to the businesses they deem most creditworthy, and they are not going to give a lower interest rate to those businesses they think less creditworthy.

So if there is going to be a two-tier interest rate it's going to be based on creditworthiness more so than on size, in my judgment, and I don't think there is any artificial way the Federal Government can come in and mandate that there be a two-tier rate according to some criterion that we would establish, nor can the Federal Reserve do that. Fred Schultz testified to this a number of years ago to give a special discount. This is the first time they ever did this. They announced it at the hearings that I held. They give a special discount to small banks, agricultural and rural areas, et cetera. This was during the difficulties we were having in early 1980.

Mr. DAUB. Mr. Chairman, I just wanted to say I hate to abandon the hearing from the minority point of view since I am it, but I do

have to keep an appointment. My counsel will stay, and I found the information this morning and the attendance most encouraging and I am certainly looking forward to participating in a full schedule of activities on the committee and subcommittee structure for the remainder of this year, and it sounds like plans for next year are looking very good. We should be encouraged on our side of the aisle and we appreciate your leadership.

Mr. MITCHELL. Thank you very much. And I might say now that a number of the members will have to leave. Some of them have their own hearings going on. There is a Democratic Caucus going on. But as members leave their staffs will remain here to receive all the information that we will be getting from you. This is kind of a busy time for us right now. Yes, sir.

TESTIMONY OF EAMONN McGEADY, PRESIDENT, SMALL MARINE CONSTRUCTION FIRM, BALTIMORE, MD., CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE SMALL BUSINESS COUNSEL, CHAMBER OF COMMERCE, FORMER DELEGATE TO THE WHITE HOUSE CONFERENCE

Mr. MCGEADY. Thank you, Mr. Chairman. My name is Eamonn McGeady, and I'm president of the Small Marine Construction Firm in Baltimore. I'm chairman of the legislative committee of the Small Business Counsel of the U.S. Chamber of Commerce, former delegate to the White House conference.

We have, beginning this Saturday in San Francisco, the midyear plenary meeting of the Small Business Counsel, and we expect to advise the chairman and the members of the priorities established by that meeting when they are reported out, which will be sometime next week.

All of our members have concern with interest rates, and I was interested in the discussion regarding two-tier rates. We seemed to find in our discussions that there are, indeed, two tiers, the small business tier normally being about 2 points higher than the prime.

I am sure you have heard in your committee other suggestions, but at least one area we think we might need some, at least consideration, is looking at the effect of cost of funds, the average effect of cost to funds to banks and how that applies visa the prime rate, or whatever.

We are particularly happy with Chairman Bedell's hearings yesterday on the Small Business Innovation Act, and we trust that the committee will report that out in rapid time and with a favorable report.

One of the major areas that we see particularly affecting building and hardware, and all associated trades, contracting, and things like that, are the rather debilitating effects of the current implications of the Davis-Bacon Act. We recognize that there are regulatory reforms to that act being proposed. We have not had an opportunity to completely evaluate them since they just recently have been promulgated. We still believe that in the long run there needs to be a serious look taken at the implications of Davis-Bacon, particularly with respect to how it impacts on small business.

There are some other technical corrections in the Tax Reform Act that I think are going to need to be referred not to your com-

mittee, but we would advise your committee of how they impact on small businesses. It deals particularly with the implications of the Tax Reform Act and how it impacts the passing on of a small business to a succeeding generation.

I think that in the haste of the passage there were some technical oversights which we will point out.

Mr. MITCHELL. We would appreciate your comments on that because, as Congressman Nowak indicated, he and other members of the committee work very closely with the Ways and Means Committee, although we don't have jurisdiction. We certainly did attempt to make significant input in the tax bill.

Mr. MCGEADY. I think the tax bill, in general, when it shakes down will come down on the plus side. I don't think there's much doubt about that, but there were, or there appear to have been in the final correlation between the Senate version and the House version, and in the conference committee version that was finally enacted, did fall into a few technical pitfalls that I think simple oversight legislation would correct.

Mr. MITCHELL. I'd appreciate it if you would send me and Congressman Nowak your comments and recommendations on those technical difficulties.

Mr. MCGEADY. We certainly will. Thank you, Mr. Chairman, and members.

Mr. MITCHELL. Thank you. Baltimore is flourishing, isn't it?

Mr. MCGEADY. I didn't have my Baltimore-is-best tie, but we certainly would invite any of the members who are around over the weekend to the Baltimore City Fair, which is this weekend.

Mr. LAFALCE. After this past Sunday I must add that Baltimore is not flourishing nearly as much as Buffalo.

Mr. MITCHELL. Continuing on a nonpartisan basis we will hear from our next witness.

TESTIMONY OF JAMES McBRIDE, PRESIDENT OF A SMALL BUSINESS

Mr. MCBRIDE. Good morning. My name is James McBride, and I am the president of a small business.

We hear you tell us what is supposed to be going on. What I'd like to do this morning is tell you from my experience what is actually going on.

I have with me a letter from SBA on my company's application to the 8(a) program which was in the pipeline before the moratorium. This letter is dated July 17, 1981. And effectively, what SBA does is turn down my application based on the lack of marketing support, which is nonsense.

Mr. MITCHELL. Let me interrupt you for just a moment. I don't know about the other members, but that's a phrase that's being used by SBA now that I think we need to challenge. Every application is being turned down on the basis of lack of marketing support. I personally had an opportunity to talk with someone at SBA and I said, "Now what are your criteria by means of which you establish marketing support?" And they were just as vague as they could be. They have just come up with a catchall phrase, so certainly we will be digging into that.

You can continue, but I would very much like, at the end of your presentation, if you will talk with Major Clark, who will get you hooked up with Mr. Fred Williams so we can do some follow through.

Mr. McBRIDE. OK.

The second area, I think we all agree that small businesses are very productive, innovative, and hire a large number of people. And laws like Public Law 95-507 are good laws toward getting more small businesses involved in particularly Government contracts. The problem is that the implementation of Public Law 95-507 has been lacking. I'll give you two examples.

I talked to one contracting officer who had the audacity to tell me that he sympathized with major contractors, prime contractors, when they came to him and said that they could not find qualified small businesses to contract with without disrupting their own businesses. And my response to him was, you know, anytime you need a small business just call me, I'll give you the names of many of them. But for a contracting officer to take that approach, you know, Public Law 95-507 is not going to be implemented that way.

I also had a conversation with a representative of a major contractor and their approach to complying with Public Law 95-507 was to count the number of people that were providing cafeteria service, messenger service, that kind of thing, in order to bring their company into compliance with Public Law 95-507. That does not seem to be in the spirit of the law as far as I am concerned. I would strongly recommend that the committee take another look at putting more teeth in enforcing Public Law 95-507, which I think is a very, very excellent law.

Mr. MITCHELL. Thank you. As far as comment from me, we would certainly have to consider that. But in addition, I will start next month, I think, a series of meetings with the larger corporations to talk to them about Public Law 95-507. I think in November or December, I'm doing Silicon Valley. That will be but the first of such meetings. I think if we can get the top people committed to full implementation, help them clean their own house up, it will be beneficial in addition to putting more teeth into the law. Thank you.

TESTIMONY OF PAT O'CONNOR, KENT & O'CONNOR, INC., REPRESENTING THE AMERICAN SUPPLY ASSOCIATION

Mr. O'CONNOR. Good morning. I am Pat O'Connor and I am here today to represent the American Supply Association.

I, too, appreciate this opportunity and the discussion that the committee has afforded the Small Business Committee.

The members of the American Supply Association are wholesale suppliers in the plumbing, heating, cooling, and piping industry. I've got a statement I'd like to submit for the record and I'll briefly just paraphrase that statement here, if I might.

There are three issues I wanted to bring to the committee's attention this morning. One is the question of interest rates, particularly as they affect the construction and housing industry. ASA members are directly intertwined with housing construction. As housing construction starts drop, sales of ASA members drop. We

urge this committee to work with the other committees and the administration to continue to do what is possible to stimulate the construction industry.

A second issue, I would simply echo the comments of the National Association of Wholesalers made here earlier that LIFO reform continues to be a need for the small businessman, in part for the ASA member.

The third issue, which I don't think has been discussed here today, is the implication of the Multi-Employer Pension Plan Amendments Act of 1980. I think we are now just realizing the effect of that act as it applies to small businessmen who, belonging to a multiemployer pension plan, find themselves responsible for significant amounts of the unfunded liability of that pension plan. And we are finding now that when they attempt to leave that pension fund, for whatever reason, to sell their business because of a reduction in force, because of a change in union, that their responsibilities to the unfunded liability of that plan could exceed their net worth. It's beginning to become very apparent that it's more and more impossible for small businessmen in one of these funds to sell out his business. There is an effort underway now to review that act, to look at what changes might be made, and we would urge this committee to play a role this fall and this winter and see what can be done to make some remedial changes in that legislation.

[Mr. O'Connor's prepared statement follows:]

PREPARED STATEMENT OF PAT O'CONNOR OF KENT & O'CONNOR, INC., REPRESENTING THE AMERICAN SUPPLY ASSOCIATION

Mr. Chairman: Thank you for this opportunity to represent the American Supply Association before the Small Business Committee. ASA is an association of plumbing-heating-cooling-piping wholesale distributors who are largely small business people. Our membership shares a wide majority of the concerns registered here today. In addition to sharing small business concerns however, we have particular concerns about three issues that fall within your jurisdiction.

(1) *Interest rates:* ASA members' interests are closely intertwined with those of the home construction industry. For each announced drop in housing starts, there is a corresponding drop in plumbing, heating, cooling or piping equipment that will be sold by an ASA wholesaler.

The clamor for lower interest rates has spread across the country, as you well know from your own contact with your constituents in August. Please understand, as you hear ASA join all these others that this is a *survival* issue and it is being addressed in deadly earnest. Day after day more small companies in the housing industry are going out of business. The results of our national tight money policy are having the most profound effect on ASA members.

We encourage the Committee to work with other committees in the Congress and with the Administration in formulating a coherent and aggressive policy for reducing continued high interest rates. And, we urge the most immediate action possible, yet action that avoids the near panic and unequivocal scapegoating that appears to have surfaced.

(2) *Multi-employer pension reform:* Numerous ASA businesses participate in multiemployer pension plans, some of which have sizeable unfunded liabilities. Under the new law passed in 1980, an ASA employer that withdraws from a plan may be faced with liabilities that can even exceed his net worth. That businessman may have had nothing to do with actions of the trustees in expanding the benefits that have created this unfunded liability. He may have no real ability to challenge the trustees' determination of his withdrawal liability. And, actions that can be construed as amounting to withdrawal could be the inadvertent result of an unrelated business decision, e.g. a reduction in his workforce or a change in unions.

Efforts are now being discussed to change this law. Because of its obvious implications to many small businesses that now participate in multiemployer pension sys-

tems, we would hope that the Committee will be receptive to hearings on this issue and supportive of remedial legislation.

(3) *Inventory simplification:* ASA salutes the Committee's leadership on this issue and particularly the role of Congressman Nowak. As provided in the 1981 tax bill, a Treasury Department study will now commence to examine ways of simplifying the tax regulations in this area. The opportunity still exists for this Committee to lead the way in developing additional changes in the law, such as provisions to facilitate using the LIFO method or to permit election of the cash method of accounting.

We ask the Committee to continue its active and highly visible efforts on behalf of inventory simplification and urge it not to abdicate its position at the forefront of these activities.

Mr. Chairman, thank you again for letting me testify on behalf of ASA. We look forward to working with you closely in the coming year.

Mr. MITCHELL. And we would certainly welcome your recommendations. I think that act falls under the purview of House Education and Labor Committee.

Mr. O'CONNOR. That's right.

Mr. MITCHELL. But there is certainly no reason why we should not be in a dialog with them on the particular problems of small business as they are created, as these problems are created by the act. We welcome your recommendations.

Mr. O'CONNOR. Thank you very much.

TESTIMONY OF ELMER COX, PRESIDENT, SMALLER MANUFACTURERS CONFERENCE OF PITTSBURGH

Mr. COX. Good morning. I am Elmer Cox, a small businessman, and president of the Smaller Manufacturers Conference of Pittsburgh. I would like to follow up with Chairman Nowak.

The problems that we have with high interest rates, and I don't think they are going to go away and I don't think two-tier is going to happen. I do think your committee could help by exploring access to equity capital. In Pittsburgh we have practically no equity capital firms. The smaller manufacturer's counsel is putting forth a vigorous effort to develop that, but we probably could use a lot of help from a committee such as yours.

The other item I'd like to call to your attention is House bill 44-20 in which there seems to be the introduction of restrictions on industrial revenue bonds. We made a survey in Allegheny County and since 1969 there have been 480 projects financed with industrial revenue bonds. That amounted to a little over $1 billion. It has been determined that there were 90,600 jobs that were stabilized, and 29,050 jobs created, and we think the proper subcommittee should look at that very closely to make sure that the interest of small business is served.

Mr. NOWAK. Mr. Chairman, if I may comment first of all on the excess problem, they are really tied together here. You are trying to accomplish some access to capital through the industrial revenue bonds and at the same time when you go out to buy your financing you are paying tremendous rates, which probably discourage a lot of people from even attempting to go out and borrow that.

We are going to have some hearings on the general problem of access to capital, and the SBIC's also come in to find out how to broaden their program and participation. The SBIC program has, I think, broadened in the last year or so but there are still other initiatives, especially today with the rates at the height they are, that

are going to shut off an awful lot of people who probably could and would expand if not for the rate.

The industrial revenue problem, I have looked at that from the prospect of what we can do about it and the Ways and Means Committee have had hearings on it and they are now going through a discussion as to how that program should be structured. The administration originally took a position that the industrial revenue bonds program should be eliminated, eliminated simply by not making the interest tax exempt, and that would have wiped it out for any State or any county or any agency to sell because, of course, then the rate of that interest would go to market, and would make it unattractive, and the program would be gone.

There is a discussion now trying to put together a bill which will perhaps limit the kind of eligibilities and the problem with it surfaced that there are many commercial establishments, or manufacturing establishments taking advantage of this and they didn't believe that would be the way the program should be going out there. And from that, of course, they have swung way over to say let's wipe out the whole program. But now I think we've got it back in the center saying we will sustain the program, and we are working with members of the Ways and Means Committee, and I have sent over reams of material showing the positive effect that these bonds have had all over, especially when they have been put into the small manufacturer who has had the ability to expand. So we will continue on that effort, and hopefully out of the Ways and Means Committee, which has prime jurisdiction over this, we will get stabilization of the revenue program.

I would like to see it broadened. In fact, I have submitted legislation to broaden it to raise the limits that are now available, and then we ran into the other side of this thing. But hopefully it looks like we will have a program and we will keep working to sustain it.

Mr. Cox. Well, if you need testimony at hearings, will you please notify us?

Mr. MITCHELL. We fought the good fight with the former chairman of the House Ways and Means Committee over this, and I just think we have to continue industrial revenue bonds if there is going to be any revitalization. There is no other way to do it.

Mr. Cox. We agree. Thank you.

Mr. MITCHELL. Thank you.

TESTIMONY OF GREG BOCCHI, REPRESENTING SCALE MANUFACTURERS ASSOCIATION, AMERICAN SOCIETY OF ELECTROPLATED PLASTICS, BUMPER RECYCLERS, AND AMERICAN HOT DIP STEEL GALVANIZERS

Mr. BOCCHI. Mr. Chairman, subcommittee chairmen, my name is Greg Bocchi. I am here this morning representing the Scale Manufacturers Association, the American Society of Electroplated Plastics, Bumper Recyclers, and the American Hot Dip Steel Galvanizers.

In the capacity of a technical adviser I have two questions for you this morning. The first one deals with EPA regulations that will be coming on line over the next 4 years which involve the

strict enforcement of pollution laws, particularly with regards to air and water.

As you well know, these require huge capital outlays on the part of industry, particularly small businesses which are faced with high interest rates. And we feel that some of our members are going to be literally squeezed to the limit on these outlays over the next 4 years and what I am wondering is is there any intent by the committee to expand loan programs with regard to pollution control equipment to help these small businesses.

Mr. MITCHELL. Well, I will respond by saying I certainly think we would like to see that accomplished, but given the austerity mood of the Congress, and given the trend that has taken place over the last year, certainly with reference to the budget reconciliation process, my best reading would be that any attempt to increase loans would be met with very stiff opposition. That doesn't mean to say we are not going to fight for it, but certainly I wouldn't expect that to happen.

The other difficulty, of course, is that the interest rates on those loans have been increased by the Congress, in my opinion, which makes it even more difficult for small businesses.

Staff from Congressman Luken is here. Do you want to comment?

Mr. ROSENBERG. Mr. Chairman, my name is Marc Rosenberg. I am representing Congressman Bedell.

Mr. MITCHELL. Bedell. I'm sorry.

Mr. ROSENBERG. From the Energy, Environment, and Safety Issues Affecting Small Business Subcommittee.

Members of the subcommittee have raised the issue that you are addressing, that of the cost of compliance with environmental regulations, and the decision of the subcommittee members was to postpone hearings on environmental regulations until next year in order to allow time to see what changes are made by the administration.

As we are informed, the Vice President's task force on regulatory reform has set the environmental regulations as their first priority, and many on their target list of regulations directly affect the areas that you are concerned with.

The feeling of the subcommittee was that there would be little gained by holding a series of hearings on regulations that would be changed anyway in a short period of time, and so their inclination is to continue to follow those very carefully, but to hold off on hearings until the administration has sent up, for example, the final draft of the Clean Air Act revisions and the changes to be made by the Vice President's regulatory reform council.

So the subcommittee is following that very closely, but is waiting for the administration to indicate to the Congress what the final shape is going to be of those regulations that you are concerned about.

Mr. MITCHELL. Is that it?

Mr. BOCCHI. I have one other item.

Mr. MITCHELL. Sure.

Mr. BOCCHI. Some of my members have inquired as to the possibility of establishing more credits toward receiving a small business loan through the hiring of minority workers. With the appar-

ent cutbacks in a lot of job programs for minorities, we feel there is a possibility that this might be something the committee can look into so as to increase the possibilities for small businesses to receive loans.

Mr. MITCHELL. We certainly shall. That is one of the programs that I think is meaningful in terms of combating the higher unemployment rate.

Mr. NOWAK. Mr. Chairman, if I may.

Mr. MITCHELL. Yes.

Mr. NOWAK. Just on this point, the job tax credit, general or targeted job tax credit which was put into effect in 1972, and the regulations weren't really finalized until 1978, and when we had some oversight on that most, like 36 percent of the businesses even had knowledge of it and the rest of the small business community didn't take advantage of it. That may be one of the initiatives we are talking about, the zones, we are talking about revitalization, and giving extra credit on top of a general credit to those who hire people in depressed areas, or minorities, and so forth, in case, you know, we find the other programs aren't really doing anything for that tremendous unemployment problem we have in some of the communities.

And also any kind of skilled or semiskilled people that are hired in these kinds of areas maybe could possibly be entitled to a higher credit, but of course that will depend upon the future communication and discussion with the administration as to what they will, you know, what new initiatives, and if that one of them I think that could be a very good one to put into a package.

Mr. MITCHELL. Thank you.

Yes, sir. I think you might have to pull the mike down.

TESTIMONY OF JULIUS DAVIDSON, SERVICE CORPS OF RETIRED EXECUTIVES, ACTIVE CORPS OF EXECUTIVES

Mr. DAVIDSON. Mr. Chairman, and members of the committee, my name is Julius Davidson. I represent SCORE, which is an acronym for the Service Corps of Retired Executives, and an affiliated group called ACE, which is an acronym for the Active Corps of Executives.

We have some 8,500 SCORE members, and perhaps 3,000 or more ACE members. With this body of almost 12,000 volunteers organized in some 400 chapters, we represent currently the greatest outreach of the SBA program. We probably, in our 17 years, have met more small business owners and prospective owners than any other group related to the small business program.

My remarks are directed against the forthcoming hearings on the preparation of a guide to sources of information for small business. With the outreach which we have, we certainly should be involved in that guide. We are in a better position to furnish information than most other facets of SBA, and in talking to the staff members of your committee we understand that at the September hearings the witnesses will be limited to Government witnesses. I am in hopes that you will extend that to nongovernmental witnesses.

Mr. MITCHELL. All right. Let me respond very quickly by saying these hearings you are referring to are the hearings that are being put on by the Small Business Administration, not by the Congress.

Second, your lobbying effort has been overwhelming on behalf of SCORE and ACE. We are deluged with mail and I will take the responsibility of conveying our concern to Mr. Cardenas. I think you should be given an opportunity to be heard.

Mr. DAVIDSON. Yes. Thank you, sir.

Now, we are a group of volunteers dedicated to the small business community. The small business community includes not only current business owners and managers, but also prospective business owners and managers. The prospective group is too often left out of the picture. We heard some frightening remarks this morning about the failure rate. We would be the last to condone the high interest rates. We know what it does to small business, but we can assure you that there are other causes for failure other than high interest rates. We have that from reliable sources, such as Dun & Bradstreet. Most of the failures are due to bad management, and this is where we fit into the picture.

Now, there is very little said this morning about management assistance. We are very, very happy that the new SBA Administrator is trying to emphasize management assistance. It is quite important. Perhaps 80 percent of the failures are due to bad management, and high interest rates is part of that because a great many owners, I can tell you from my 17 years of experience, a great many owners don't take that into consideration when they plan their cash-flow projection. More often than not they leave interest out of the cost. Believe it or not, that is true.

Thank you for giving us the opportunity to explain our position.

Mr. MITCHELL. And thank you for attending and sharing with us some very interesting observations.

Yes, sir.

TESTIMONY OF DENNIS ROGERS, LEGISLATIVE CHAIRMAN, ELECTRICAL APPARATUS SERVICE ASSOCIATION

Mr. ROGERS. Mr. Chairman, members of the committee, my name is Dennis Rogers, and I am president of a small electrical manufacturing and service company in Michigan, and I am the legislative chairman for the Electrical Apparatus Service Association. I represent approximately 2,500 small businesses in the United States.

Our industry has had a great deal of difficulty in communicating with the SBA and we do not have very strong feelings for the SBA. We are particularly concerned with the proposed size standards and definitions. We do not feel that the SBA is adequately communicating with the industries for which they are proposing sizes and definitions. We have been unable to obtain written communication with the SBA relative to these concerns. We have been advised that we would receive written notice of public hearings when proposed standards were to be presented. We've been waiting since June 1980 to receive some type of written response. To date we have not. We make telephone calls and they say, "Well, such-and-such a size has been proposed." And we have come to find out that

it's the original proposal we had protested and we were never given an opportunity to protest.

I employ 40 persons, and by the proposed size standards I am no longer going to be a small business. I find that hard to believe, and that is one statement I would like to direct to you, Mr. Mitchell, that that's an area of yours. And I have two other areas.

Mr. MITCHELL. Well, let me respond to your first area. I think there is almost a consensus on this committee that the size standards issue has not been handled well by the Small Business Administration.

It came before this committee 1 year or so ago and we simply rejected almost out of hand size standards because there had been no consultation. This year we have indicated to the Small Business Administration that whatever size standards they want to propose, we have urged that they not be put into effect until such time as they have been reviewed by this committee. Frankly, some of the recommendations that I hear for regulations are almost laughable. I would certainly want your comments on size standards for our benefit, and certainly to follow through with the SBA to make sure they do listen to you and at least consult with you.

I am trying to keep my blood pressure down this morning, but I just get infuriated with the promulgation of regulations, or proposed regulations which just don't make sense. So if you will share that with us we will vigorously followthrough.

Mr. ROGERS. We certainly will. That was as recently as 3 weeks ago that I did receive that information from the SBA, and then had to write them another protest of their proposed size standards and definitions. The definitions are so limiting for our industry that it's ridiculous.

Mr. MOLINARI. Mr. Chairman, did we get your recommendation on size standards?

Mr. MITCHELL. He indicated he would.

Mr. ROGERS. We have given that to the SBA several times in writing, and have asked them to respond to us in writing and they have indicated they would and we have never been able to receive anything back from them in writing as to either what committee is considering the size, or what group.

Mr. MOLINARI. I'm just asking what was your recommendation?

Mr. MITCHELL. What I had said was I had asked that you submit your recommendations to this committee.

Mr. ROGERS. They have proposed the number 20 as being a small business. Well, our industry, for the 2,500 firms, that would eliminate probably one-half of the firms. We have many firms that are in the under 100 size category with gross receipts of under $5 million, which I personally would consider to be a small business.

Mr. MOLINARI. One hundred is the number?

Mr. ROGERS. No; we have proposed 200. The original number was 500. They proposed 20. We had asked to go to 200.

Mr. MITCHELL. You had two other areas you wanted.

Mr. ROGERS. Yes; just two brief comments. One to Mr. Luken's subcommittee on the EPA requirements.

Our industry also has to deal with some of the disposal of some of the toxic waste with some of the equipment that has been in service for quite some period of time, PBB's, to be exact, and we

are confronted with the cost of disposal when equipment is put on our doorstep, or we are asked to service it, and we would only ask again that this committee consider the impact of disposal, the cost to small business for disposal of these wastes. We need some assistance to dispose of these particular toxics.

A comment on interest rates. Our group feels very strongly that there does exist a two-tier interest rate, and that small business does subsidize big business, and a true definition of prime interest rate is essential.

I have heavy borrowing because of a manufacturing firm, as an example, and I borrow at a prime plus, and I would have to support the gentleman from the U.S. Chamber of Commerce, Small Business Division, on their comments about two-tier. I think that it does exist, and it is demonstrated in our community time and time again. Thank you very much.

Mr. MITCHELL. Thank you, sir.

TESTIMONY OF FRANK DOYLE, SMALL BUSINESS SERVICE BUREAU, WORCESTER, MASS.

Mr. DOYLE. Good morning, Mr. Chairman, and members of the committee. My name is Frank Doyle. I'm with the Small Business Service Bureau in Worcester, Mass.

I'd like to agree with the previous gentleman on the concern of our group on the size standards proposed by the SBA last March 10, and to further that by saying I met with several top officials of SBA just yesterday, and in discussing the size standards issue with them they mentioned that the high end of some of the size standards might be brought down; but when I brought up the point that within the same industry vertically, if you follow it from retail and manufacturing, someone with 16 employees is big business, but if you follow it through, someone with 2,499 employees is small business. They still reiterated the point that the lower end would probably not be moved up. And I agree with him, the lowest standards go down to 15 employees as being the borderline between big business and small business. I just don't see how that makes sense.

I would like to also address a point that you had brought up, Chairman Mitchell, regarding the Administrator's proposal to eliminate the 2.75 percent above prime that currently exists on SBA loans.

In speaking with SBA officials again just yesterday, they reiterated that they had not heard from the small business community. They had heard from the banking community very much. The banking community is saying they would plainly not make loans if this was true.

My point is that if the prime is the rate to the best customer, and the small business, the small business loan is guaranteed 90 percent by the U.S. Government, why is that not a best customer? The banks can turn around and sell the guaranteed portion on the secondary market and make a fantastic return on investment, and they are quite simply not being good businessmen by avoiding making these loans. They are not making the profit they should be, and they could be, even without the 2.75 above prime. I just wanted to bring that up as someone representing 30,000 members who are

very small, very marginal businesses who very often borrow for operating capital.

The reason that a lot of small business groups have not responded is that they feel an expensive loan is better than no loan. Our feeling is that the banks obviously want to get as much as they can, and that they really can afford to make the profit on the straight prime rate without that extra buffer that is really given to them.

And just to agree with several people before, interest rates and inflation, it's hard to isolate one from the other, but it is a two-fisted punch that's definitely hurting our members also.

Mr. MITCHELL. Thank you.

Without prejudging this new proposal coming out of SBA, I will just indicate to you that I can almost guarantee you that the members of this committee will look at it with not a jaundiced eye, but a very objective eye. We feel—well, suffice—let that statement stand by itself.

Thank you for being here.

Mr. DOYLE. Thank you.

I would just like to mention to the fellow from Congressman Bedell's office that I would be very much interested in the hearings they are having in New England on energy issues affecting small business, because after inflation and interest rates, we are told that's No. 3, and it definitely affects our members.

Mr. MITCHELL. Thank you very much.

Mr. MOLINARI. Can I ask a question?

Mr. MITCHELL. Yes; all right.

Mr. MOLINARI. What's your definition of marginal? You say you represent 30,000 marginal businessmen.

Mr. DOYLE. Well, not all of them are marginal. What I'm saying is it's a very small business. Our average member has four employees, and about 65 percent of them do under $200,000 a year. Very often they are retail, and of course a large service part. But what I am trying to say is they are not the sophisticated capitalized small business.

Mr. MITCHELL. I don't want to cut short on the questions, but we are going to try to get out by 11 and I don't want to prevent anyone from making his feelings, or statements, or questions known, but I would suggest that perhaps we have you as our last oral witness, and if anyone has questions, or comments, or criticisms, or suggestions, if you will reduce those to writing and send them in to us we will respond to you.

Yes, sir.

TESTIMONY OF BRUCE HAHN, NATIONAL TOOLING MACHINE ASSOCIATION

Mr. HAHN. I am Bruce Hahn with the National Tooling Machine Association. I would like to suggest that the committee consist, and it might properly start with Mr. Nowak's subcommittee, there are already rumors of a possible second tax bill which might include both revenue raising and revenue cutting measures in it.

The House Ways and Means Committee, Democratic version, showed a lot of concern for small business and there were quite a

few measures in that. It showed an interest in that committee to the needs of small business. I think that that link could be forged and made stronger if this committee were to undertake some preliminary investigations of what kind of a package, what types of measures, both on the revenue cutting and revenue raising side might be recommended by the small businesses in this country.

Mr. NOWAK. Yes; let me respond very briefly.

We, of course, were very cognizant of that fact when we went through and started to compromise in the last tax bill. The positions that this committee, and both the majority and minority had agreed to try to obtain on behalf of small business, and that was, of course, talked about as the compromises were made that, you know, well, there will be a second tax reduction and let's get this one through and get it in place and then we can go from there and try to complement what advances were made in the first tax bill and the second tax bill.

And I would like to see greater tiering of the rate. The LIFO problem is still with us. The third problem was mentioned here, and the interest rate is something that I think overwhelms all of them because unless there is a viable community out there with at least a gross profit you are not going to have a great opportunity to take advantage of some of the heavy depreciation, and so forth, that was allegedly in the bill to help business. I am very aware of that and hopefully we can make some advances as we go along.

The administration had thrown out a proposal to increase some revenue some place, and if that is true there may be that opportunity to offset those revenues with some more incentives, especially in the small business area where I think the problems are going to be exacerbated as we go along through the next 6 or 7 months.

And we will be, and in fact we already are in contact with several members of the Ways and Means Committee to extend the proposals and to implement those proposals we had made previously into the new tax bill.

Mr. MITCHELL. Thank you, and I thank all of you. I can speak for all the members of the committee, this type of hearing is of enormous value to us. I have to admit it also increases our workload significantly, but that's what we're here to do, to work. And I can assure you that on every recommendation that has been made there will be followthrough by the appropriate subcommittees, or if the case warrants it by the full committee. I doubt that we will have another such hearing this year, but it is my intention that for as long as I chair this committee we will continue this kind of dialog because I would hope that it is mutually beneficial.

Thank you very much for your participation, and the hearing now stands adjourned.

[Whereupon, at 10:50 a.m., the committee adjourned, to reconvene subject to call of the Chair.]

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